CUSHMAN & WAKEFIELD

25 ЛЕТ В РОССИИ

Research Department Cushman & Wakefield

FLEXIBLE WORKSPACE

4TH EDITION
NOVEMBER 2020

Commercial real estate - Russia

KEY TRENDS (NOVEMBER 2020)

241k SQ. M

Moscow flexible workspace stock,
November 2020

1,3%

Flexible workspace as a proportion of Moscow office stock

29%

Annual growth,
Jan-Nov'2020

80%

Share of chain operators in the total stock

- Since the beginning of the year the flexible workspace market increased by 29% compared to the end of the previous year. Space 1 Arbat (4.6k sq. m), WeWork Arcus (4.4k sq. m) and Business Club OKO II (4.2k sq. m) are the key openings in Jan-Nov 2020.
- The new operator Territoriya is planning to deliver to the market flexible workspaces almost in every Moscow district with more than 8,000 workplaces.
- The major market players are local operators – Space 1, The Key, S.O.K.
- Chain operators continue to dominate the market, their share in the flexible workspace stock amounts to 80% of the total supply.
- Flexible workspaces are becoming more and more popular among large companies. Major 2020 deals are the lease of 627 w.p. by City Mobil in WeWork and OZON's deal in S.O.K. (499 w.p.). Brown-Forman chose Space 1 Stanislavsky Factory as the new office location, which is the first built-to-suit deal in flexible workspace.

FLEXIBLE WORKSPACES IN MOSCOW

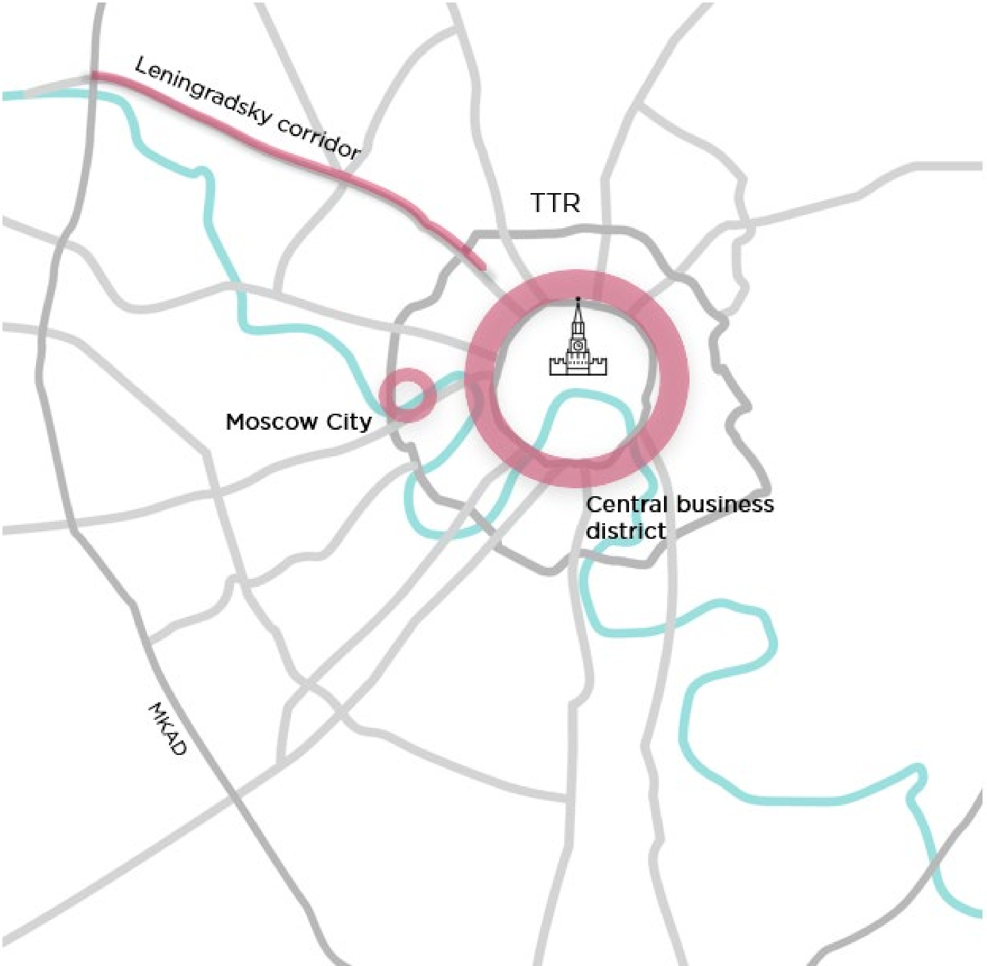
There are 137 dedicated flexible workspaces in Moscow, 92 of which belong to chains. In 2019, 30 flexible workspaces were opened with total area of 68,000 sq.m. In 2020, 17 new projects are announced for opening.

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 - 80%.

The most popular business districts 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 higher demand and occupancy rate are registered in such locations.



MOSCOW IS IN TOP 10 LARGEST EUROPEAN MARKETS

About 90% of flexible workspace in Russia is located in Moscow, the segment is also developing in other cities.

Flexible workspace as a proportion of global office stock

5,9%
Amsterdam

5,8%
London

2,7%
Stockholm

2,3%
Paris

1,6%
Berlin

- Moscow has the leading position by flexible workspace stock among the capitals of Central and Eastern Europe.
- The share of flexible workspace in the total office stock in Moscow is 1.3%, which is close to global and European average.
- Flexible workspaces are also developing in major Russian cities – St. Petersburg, Ekaterinburg, Kazan, Novosibirsk and others. International operators are among the market players in some of the cities. For example, there are flexible offices managed by Regus in Saint-Petersburg, Ekaterinburg and Chelyabinsk. However, the major market players in the regions are still local operators - Names in Ekaterinburg, COWO in Novosibirsk, Alliance Business Centers in Kazan. Some of these operators gradually expand their presence in Russia. The most striking examples are GrowUp and Praktik – after the successful openings in Kazan and St. Petersburg these companies opened new locations in Moscow.

KEY MARKET PLAYERS IN MOSCOW

Including future openings

Operator	Number of locations	Total area
Ключ	13	61,000 sq. m
Space	13	50,000 sq. m
SOK	5	26,000 sq. m
Regus	10	20,000 sq. m
wework	4	18,000 sq. m
CEO SPACES	4	17,000 sq. m
workki	4	14,000 sq. m
DEWORKACY	6	12,000 sq. m
MEETING POINT	5	12,000 sq. m
РАБОЧАЯ СТАНЦИЯ	5	11,000 sq. m
#businessclub	3	10,000 sq. m
(практик)	2	6,000 sq. m
CEO ROOMS COWORKING	3	5,000 sq. m
SREDA	1	5,000 sq. m

Operator's name — Number of locations
Total area

MAJOR DEALS

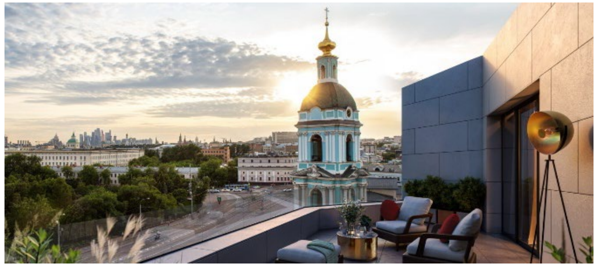
Flexible workspace operators are still active market players both as tenants and landlords. Space 1 leased 11.6k sq. m in Noviy Balchug BC which is one of the most important deals of the segment in 2020. The first built-to-suit deal in flexible workspace took place in 2020. Brown-Forman chose Space 1 Stanislavsky Factory as their new office location.

Major flexible workspaces deals, Q1-3 2020

№	Coworking name	Area of the deal, sq. m	Tenant	Quarter
1	WeWork Arcus III	3,457	City Mobil	2
2	S.O.K Federation	3,400	OZON	3
3	Space 1 Arbat	3,180	FSK	3
4	Workki Neo Geo	2,584	Gazpromneft - SM	1
5	The Key Sirius Park	2,514	GreenAtom	3

Flexible workspaces are gradually becoming an important element of workplace ecosystem.
After the implementation of work-from-home people are changing their perception of offices. Soon traditional office will be associated with a hub, where people collaborate and meet clients and colleagues, while their home or flexible office will be more suitable for daily work.

LEASE TERMS: AVERAGE RENTAL RATES



CENTRAL BUSINESS DISTRICT

37,024 rub/ workplace/ month

MOSCOW CITY

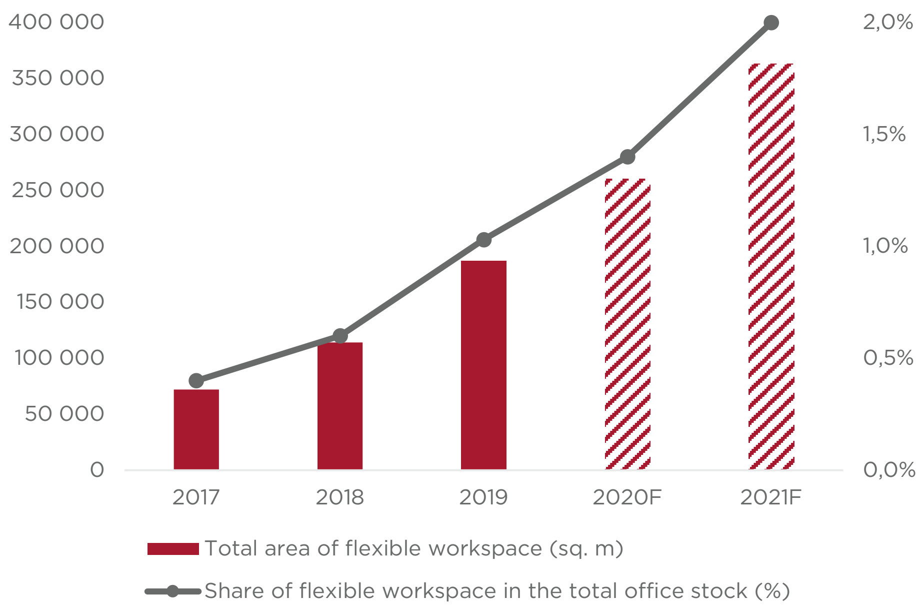
36,545 rub/ workplace/ month

LENINGRADSKY CORRIDOR

35,102 rub/ workplace/ month

Rental rates are calculated for chain flexible workspaces and include VAT and operational expenses.

Flexible workspace supply forecast, Moscow, 2020 - 2021



DEVELOPMENT FORECAST

- In 2019, the market showed more than 50% growth. In 2020, in case of the opening of all announced locations, the segment growth may amount to 53%. However, 35-40% is a more realistic forecast.
- Taking into account the current growth rate of flexible workspaces and the size of the unsaturated market, the segment has potential for further development.
- The flexible workspace stock in St. Petersburg amounts to 38,000 sq. m, and the segment is still growing. The market growth in 2020 is expected to be at the level of 30-40%.

Key segment trends:

- More market players choose either operator model or built-to-suit approach, when preliminary agreement with potential tenant is crucial for signing lease agreement by the operator.
- Increase in corporate clients’ interest in flexible workspace.
- Chain operators will continue optimization of their portfolios in order to maximize the economic benefit.

Appendix

WHAT IS FLEXIBLE WORKSPACE?

Definition, types of flexible space

THE DIFFERENT TYPES OF FLEXIBLE WORKSPACE

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

Flexible workspace

Formatted

- Coworking space
- Mini-office
- Hybrid space
- Serviced office

Non-formatted

- Café, pay-by-time café
- Public workspaces
- Other

Specialized

- Workshops
- IT coworking spaces
- Artistic coworking spaces

Formatted workspaces are dedicated to office work and offer equipped workplaces while non-formatted workspaces provide them as an additional service.

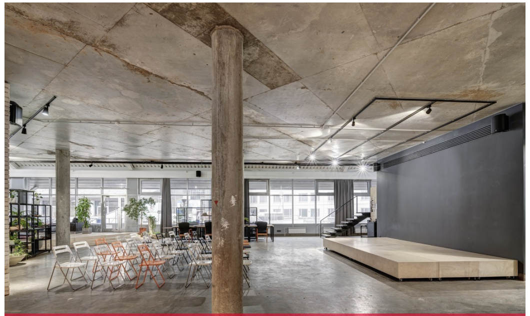
Specialized workspaces provide employers of a specific industry with work places including workshops.

Flexible workspaces can be a part of larger chains or 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



«Work 'n' Soda»

Work Station

Some spaces may offer additional services. For example, Work Station Plaza have a capsule hotel attached and Work'n'Soda hybrid space boasts an event-hall with a bar in a historic building of the XVIII century.

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 coworking style of office for visitors, clients and meetings;
- A fixed number of hours in meeting rooms.

Appendix

BUSINESS MODELS

DIFFERENT BUSINESS MODELS

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Model 1. Leasing (buying) premises

Flexible workspace operator leases a big office block, makes the initial capital investment and pays operational expenses, and then end-users lease small blocks or workplaces short-term. An operator may also offer the block to the single tenant (built-to-suit).

Model 2. Operator's model

A premise's owner offer an operator a fitted-out office block with the equipment required. Operator is in charge of the location's management and receives remunerations for the work performed.

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 coworking areas, mini-office 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, coworking 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, café or restaurant.

Occupancy rate

Depending on the model, occupancy rate 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

For more information and contacts please visit
www.cwrussia.ru

About the company

CUSHMAN & WAKEFIELD IN RUSSIA

Cushman & Wakefield has been successfully operating in Russia since 1995, with more than 250 experienced and highly qualified expert employees. The Moscow office implements projects in all major cities in Russia and the CIS, forming transnational teams for solving complex tasks when necessary. There are 11 key areas of company activity, covering all the sectors of commercial real estate: offices, retail, warehouses, hospitality and tourism, land. The range of services provided includes the leasing of spaces, asset management, investment consulting, real estate operation, services for corporate clients, project management, development consultancy, representing tenant's interests, valuation, hospitality and tourism. Cushman & Wakefield is one of the largest companies in the global commercial real estate market, with a turnover of $8.8 billion and a team of more than 53,000 specialists in more than 400 offices in 60 different countries. For more information, visit our websites – www.cwrussia.ru and www.cushmanwakefield.ru