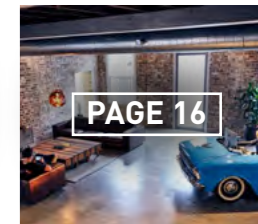
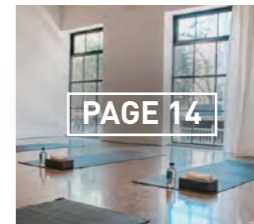
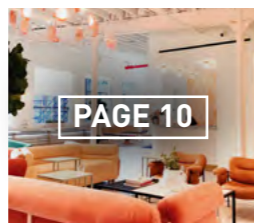




THE AUSTRALIAN COWORKING MARKET REPORT

2018/2019

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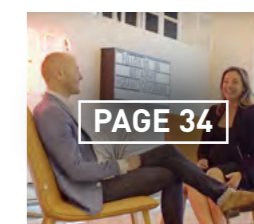
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MARKET OVERVIEW

Office Hub's Coworking Market Report 2019 considers the growth and evolution of the flexible workspace sector in Australia in FY2018-19.

FOREWORD FROM GRANT PHILIPP, OFFICE HUB FOUNDER & CEO

Since Office Hub launched five years ago, rapid growth of the flexible workspace sector has disrupted the commercial industry beyond anyone's expectations. Driven by a culture shift within the new generation workforce, coworking has become the new normal. Now a vital part of commercial real estate strategy for everyone from startups to corporates, it's triggered intriguing change in the coworking landscape.



Last year, we reported a seismic market shift with abundant new supply changing the play and putting tenants in control of the market for the first time. This year, operators are differentiating with a focus on design and service sophistication as space-as-a-service becomes the norm for corporate and enterprise. Global operators entered key business districts with thousands of square metres and a focus on the enterprise segment, while boutique providers are holding their own with niche and industry-specific offerings. The quality of the employee experience is the key consideration across the board as leaders refocus on their people, and as such operators must be willing to adapt and reinvest to remain competitive.

The propensity for peer-to-peer office sharing continues to rise as collaborative consumption grows in popularity, particularly with the presence of millennials as decision-makers in Australian business. 39 percent of the Australian workspace market is in the peer-to-peer sharing of commercial office space, as the flexibility, cost and culture benefits come in at a more affordable price for small businesses than managed options.

Challenges remain for many in developing a flexible workspace strategy, but this year's findings demonstrate that it must be a priority to attract talent, engage staff and stay ahead of the competition. With greater choice, softening rates and vastly improved quality across the board, it's an exciting time to take the plunge and tap into the benefits of flexible workspaces.

I'd like to thank those who chose Office Hub to find or advertise flexible office space this year. Beyond informing the findings in this year's report, we believe business success and office space are inextricably linked. That's why we're so passionate about helping organisations, large and small, find the perfect office space to set their success alight.

Grant Philipp
CEO & Founder, Office Hub



KEY TRENDS

- **'Generation Flex' calling the shots in corporate workspace strategy**
A culture shift has prioritised activity-based working and collaboration in the workplace, fuelling the rise of flexible workspace strategy in corporate and enterprise.
- **Soaring confidence in Australian market from global operators**
As they continue to lease more commercial space and open thousands of square metres in capital cities, major players are displaying fresh confidence in Australia's flexible segment.
- **The rise of niche and industry-specific spaces**
As more operators enter Australia, there is a growing precedence for industry-specific spaces, gender-focused offices and other specialisations as operators strive to find a niche in an oversupplied sector.
- **Fresh uptake of peer-to-peer office sharing**
The peer-to-peer economy is fuelling considerable growth in office sharing, with more than 39 per cent of workspace deals in Australia in the peer-to-peer segment.
- **Activity-based styles of work informing design movement**
Operators are reinvesting to meet evolutions in working style, with private offices, collaborative breakout zones and natural light defined as the key design trends of 2019-20.

Who are Australia's coworkers?

CULTURE SHIFT: THE POWER OF THE EMPLOYEE

With millennials expected to make up three-quarters of the Australian workforce by 2025, today's typical employee cuts a drastically different figure to 30 years ago.*

This year, we have seen emerging cultural shifts within Australia's workforce come to the forefront as we consider the changing ways in which businesses occupy flexible workspaces. Since the 1980s, flexible office space has been defined by the traditional serviced office – a flexible and cost-effective solution, yet one that accommodated working styles of the early digital age. Like the defamed cubicle concept, early serviced offices encouraged solitary work and a sense of hierarchy within the corporate ladder. In business culture, there was pressure to perform at high output within the 9-5 day and, with early technological development, email was the primary communication method and hard filing was the norm. Offices and even flexible workspaces were, until recently, the stark contrast of what we today consider "coworking", and the modern behaviours and processes that go with it.

Now, though, coworking in Australia has emerged as both a fully-fledged real estate sector in its own right, as well as a concept that alludes to recent work styles and modern office behaviour. Beyond the benefits of aligning costs to a specific headcount, which has always been an attractive advantage of flexible workspaces, renewed interest – particularly from corporate and enterprise occupiers – is borne from the progress of the industry in understanding and evolving to the demands and concerns of today's workforce. Importantly, it both caters to ongoing economic and business concerns, and directly impacts the experience of the employee. Flexible workspaces and complementary services can be felt, heard, and experienced by the end user, while most aspects of a commercial lease remain intangible and unimportant to the workforce on the ground. In this way, flexible solutions have gained influence and precedence where the commercial sector does not and, what's more, operators can responsively adapt to new preferences in business, ensuring the industry and even occupying businesses are future-proofed for continual growth. For these reasons, a flexible workspace strategy is now considered a primary tool in attracting, engaging and retaining employees in order to remain competitive in the present business climate.

With millennials expected to make up three-quarters of the Australian workforce by 2025*, today's typical employee cuts a drastically different figure to 30 years ago. As corporate and enterprise organisations around the world vocalise fresh focus on their most important asset – their people – their real estate strategies have transformed in line with the concerns of Generations X and Y. Employees are now, in general, more pessimistic about the economy, more concerned with the state of society, and less trusting of organisations and the media**. As Deloitte reported this year, Gen Y and Gen Z may be no less ambitious than previous generations, but they are more selective in supporting businesses, including their employers – they want to see synergistic values, practices or political leanings.

In terms of work, employees today are digital natives who expect to see tech seamlessly integrated in their day-to-day lives, and they place far greater importance on experiences, including a desire to travel and enjoy a flexible daily routine. Other aspects of life – fitness, health, social occasions – are also expected to be accommodated within the workplace, as the office increasingly becomes somewhere to meet, collaborate, interact, learn and socialise in all aspects of life.

In exchange, though, employees are also willing to give more to employers. They embrace an "always on" approach, accepting that flexible and tech-enabled processes means working anywhere, at any time. They consider their employer an extension of their own values and as such they will endorse organisations in their own circles and on social media. Both traditional hierarchical work structures and the notion of 9-5 have almost disappeared, with flat management structures, collaborative activity-based working and flexible hours the rising norm around the world.

*Haworth and Work Collective - Millennial Series. <https://media.haworth.com/asset/89200/Millennial%20Series:%20Raising%20the%20bar:%20Australian%20Millennials%20in%20the%20Workplace>
**The Deloitte Global Millennial Survey 2019. <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialssurvey.html>

BUSINESS & BEHAVIOURAL PROFILE

Percentage of market demand per industry

INDUSTRY

Little has changed in terms of the business industries utilising flexible office space around Australia compared to last year. Professional services firms remain the most sold on the idea of flexible space, with 23 per cent of demand coming from knowledge-based sectors such as law, finance and accounting. IT-related organisations (16%) and sales, telecommunications and recruitment firms also continue their strong uptake of coworking space, while a notable rise in interest from property related sectors such as real estate agencies, property developers and architects (11%). The creative industries including design, media and marketing practices recorded 10 per cent of demand share, contrary to popular opinion that they are the primary occupiers of flexi space.

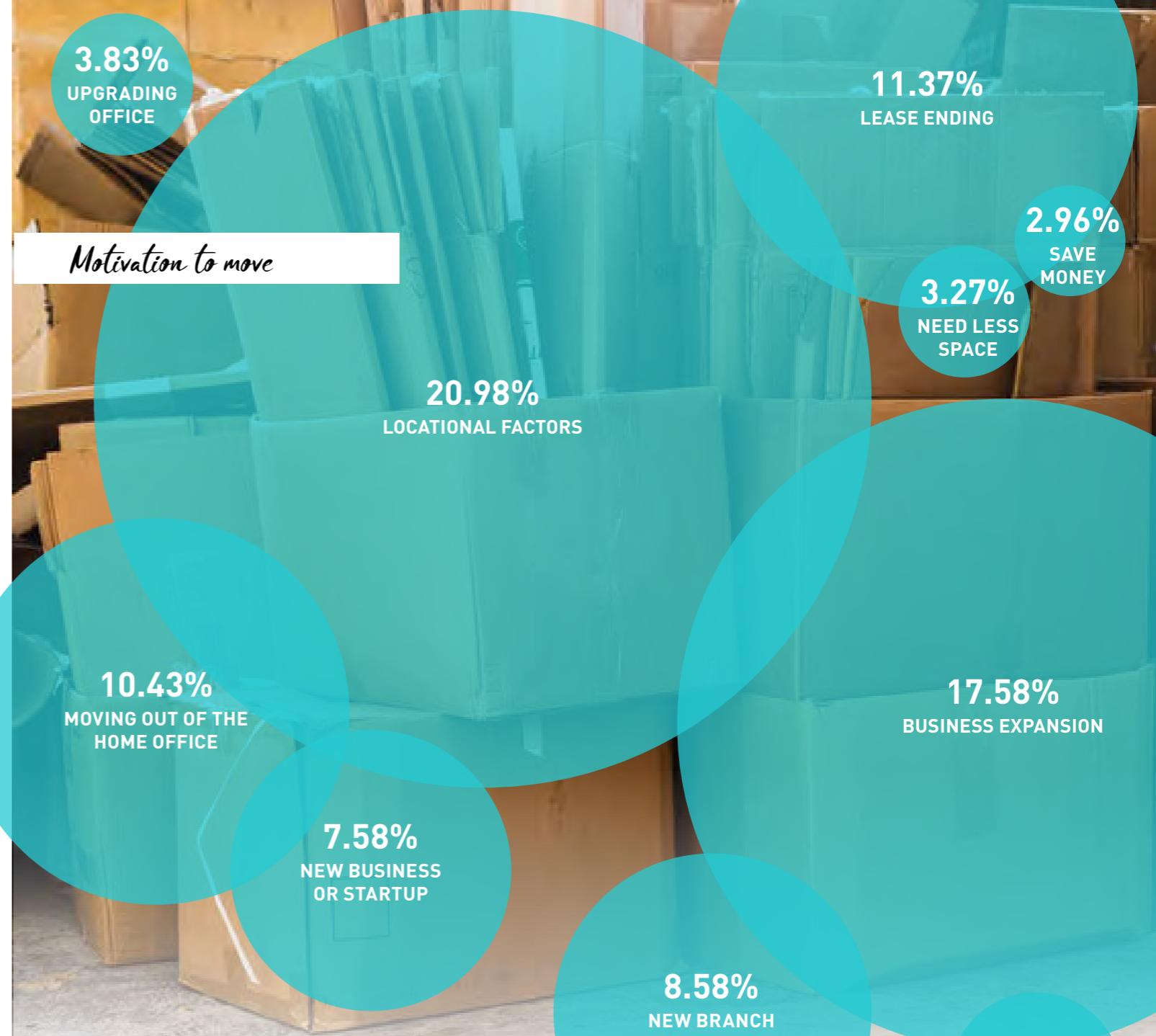
Professional services	22.56%
IT, computing and software	15.83%
Property, real estate and construction	11.16%
Sales and recruitment	9.71%
Creative and media	8.67%
Healthcare, medical & beauty	7.81%
Engineering and architecture	3.98%
Education and training	3.71%
Charity and not-for-profit	1.29%
Government	0.83%
Other	9.41%

LIFECYCLE OF BUSINESS

Unsurprisingly, the flexibility to change and resize your office throughout the contract continues to draw growing businesses to coworking space. 12 per cent of demand this year came from startups, while another 12 per cent of enquirers considered themselves in a growth phase. However, a considerable 40 per cent proportion of enquirers viewed their growth as "static", indicating that flexible space is pervading preconceptions that its only benefit is business agility. The typical coworking profile in Australia seems to no longer be startups or entrepreneurs, but established companies seeking benefits beyond the simple ability to grow within a space.

Lifecycle of business

Trading - Static	39.49%
Startup	12.35%
Trading - Growing	11.94%



NB. There are often several reasons to move per enquiry.

MOTIVATION TO MOVE

Geographical factors continue to influence people to find new office space, with the desire to find a better working location informing 21 per cent of market demand. An increase on last year, this trend is thought to be influenced by the recent large-scale expansion of operators into Australia's business districts, particularly in Sydney, Melbourne and Brisbane. Bringing plentiful supply and consolidating rates across each city, office space in prime business precincts became more attainable for businesses of all sizes, phases and industries.

The occurrence of business expansion and the need for more space as a reason to move (18%) aligns with findings that preparation for the future is a major consideration in a business's approach to property today. For the first time, an ending commercial lease

was a more common motivation among enquirers than upgrading from the home office. This points to the diversifying demographic of coworkers in Australia and signals an important shift in the development of the industry, as those with the resources for a conventional property strategy are recording a similar pace of uptake to entry level entrepreneurs and side hustlers.

There was a particularly high proportion of new branch offices in remote markets such as Hobart and Perth, while newly-started businesses accounted for slightly under eight per cent of demand. Interestingly, only five per cent of enquirers referred to their desire to find a temporary workspace such as a project or swing space, contrasting the idea that flexible workspaces are most utilised for short-term needs.

TYPE OF OFFICE SPACE

Last year we reported a shift away from open plan spaces towards lockable offices, and the pattern further consolidated this year as a remarkable 80.53 per cent of enquirers sought private workspaces. A further seven per cent were looking to sublease space, another "private" solution, while only 20.7 per cent preferred an open plan desk space. Across all types of space, the average size of a workspace rental is around three desks, like last year, which is attributed to demand from new businesses, startups, branch offices and those moving out of the home office.

Property trends are largely occupier-led, and this overwhelming preference for private space is an important factor in the evolving face of industry growth throughout Australia. In response, operators are adapting their solutions to the so-called hybrid model, a compromise between the vibe of a coworking centre and the walled offices of the serviced office model. This, in turn, is making flexible space a more attractive solution for many corporate and knowledge-based industries with concern for confidentiality in both data and conversation, which serves to extend the reach and growth of the flexi sector across the country.

LENGTH OF RENTAL TERM

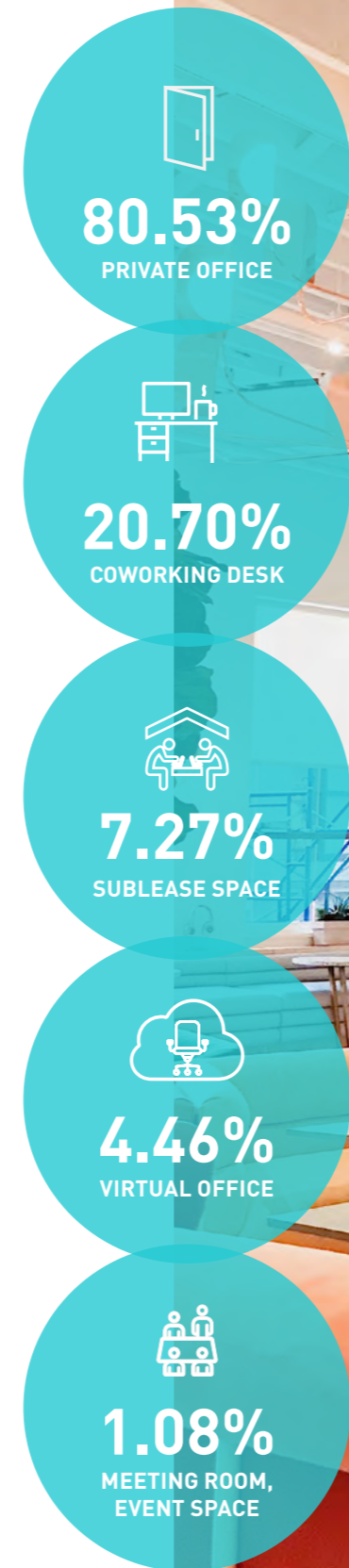
Over the last three years, the average signed term of a workspace rental has remained between seven and eight months. However, from initial enquiry through to signed contracts, the overwhelming market preference is for 12 months. More than 80 per cent of enquirers desire a longer term, resulting in only 25 per cent of contracts being month-to-month. Operators often incentivise 12-month commitments with a reduction in overall cost, so this trend implies that price is more important than flexibility for most tenants – they would rather stay longer to get a good deal than sign a month-to-month term at a higher rate, which also often makes them susceptible to future rate increases.

It is crucial to note that these figures do not account for extensions – they reflect either the desired term at the time of enquiry and the initial agreed term of signed contracts. As a guide the actual tenure of a tenant in flexible space is two times the original term.

Average signed term (months)

2016-17	2017-18	2018-19
7.74	7.23	7.47

Preferred type of workspace



Term length (market %)

Term Length (Months)	Enquiries by preferred maximum term	Agreed contracts by signed term
Month-to-month	2.7%	24.9%
2-3	3.0%	11.2%
4-6	9.9%	18.5%
7-10	0.5%	4.9%
11-12	67.3%	32.0%
13-18	0.4%	4.8%
19-24	14.5%	2.2%
25+	1.7%	1.5%

SPEED OF DELIVERY

Businesses are moving into flexible office space faster than ever, with the average move-in time dropping to 36.5 days this year. A 3.69 per cent reduction on last year's figure, this change is thought to be fuelled by greater supply allowing for wider choice and quick movement into available space. The rise of prop tech developments such as real-time inventory and instant booking have also contributed to faster move-in times as brokers and workspaces offer new ways to secure flexible office space.

Of the 36.5 days, it takes 24.4 days from the tenant's first enquiry for them to sign a contract on a flexible workspace, and a further 12.1 before they move in. Both time periods are the lowest we have recorded this year, suggesting speed of delivery is increasingly pivotal to businesses using flexible office space.

Speed of delivery:

	2017-18	2018-19	Change this year
Time from enquiry to deal (days)	24.4	24.4	0%
Time from contract to move-in (days)	13.5	12.1	-10.37%
Total move-in time (days)	37.9	36.5	-3.69%

TODAY'S COWORKING PROFILE



Is concerned about the environment and takes responsibility to reduce their employer's carbon footprint.

- Energy efficient buildings
- Access to public transport and end of trip facilities
- Recycling & other green initiatives



Seeks ways to meet new people, interact with others and build relationships at work.

- Social & networking events
- Community focus



Is conscious of health and wellness; seeks healthy food choices and an active lifestyle.

- Sit-stand desks & ergonomic furniture
- End of trip facilities
- Access to gyms and health centres



Structures their own working day and expects to be trusted with flexible hours. Opposes the constraints of the nine-to-five working day.

- 24/7 access



Embraces activity-based working and regularly collaborates with others, both in and outside of the office.

- Breakout & collaborative spaces
- Meeting rooms
- Conferencing technology



Expects to see the latest technologies integrated within the workplace.

- Fast internet
- Electronic/fingerprint access

Coworking supply

THE RISE OF NICHE AND INDUSTRY-SPECIFIC SPACES

We're seeing a growing precedence of industry-specific workspaces, gender-based coworking hubs and other specialisations as operators strive to find a niche in an oversupplied sector.



Our Community House in North Melbourne

As Australia's flexible workspace sector continues to expand, operators are stepping away from one-size-fits-all and differentiating their offering to appeal to specific types of customers. By providing more relevant spaces and services as well as specialist resources for particular business industries, operators can attract aligned members, create a knowledge-exchange hub, and run relevant events and networking programmes, resulting in the ability to charge more and achieve a better return on investment.

In flexible sectors around the world, niche spaces are popping up to resounding success in their respective markets. New York-based startup Alma recently raised USD \$8 million in funding to expand its "co-practice" of therapists, coaches and wellness professionals – a concept that could translate to Australia, where a strong seven per cent of demand comes from allied health professionals and other wellness-related vocations. London-based The Qube raised €2.1 million seed round to launch its music-based coworking offering with purpose-built studios and editing facilities. In Asia, we're seeing more and more niche workspaces within both startup-dominated sectors like fin-tech and prop-tech, as well as more conventional professions like law and manufacturing. And around the world, female-centric and LGBTQT workspaces are providing safe places for businesses to operate free of discriminations that can be found in the workplace.

In Australia, the niche segment remains untapped as most operators need to appeal to the widest possible customer base to remain successful. Southbank's One Roof Women is a well-established female-centric hub, set to expand throughout Australia, while Our Community House in North Melbourne provides flexible space to not-for-profits, charities and social change-makers. Many operators are focusing on the startup demographic by providing access to investors and mentors alongside incubator and accelerator programmes, while others are partnering with overseas businesses, investors or other coworking hubs to aid access into overseas markets.

As Australia's market grows, we expect to see flexible workspaces evolve organically into spaces that deliver more closely on a defined customer profile. Different people, roles, businesses and industries have varying needs and, as more of each choose flexible space, the operators that respond most sensitively will achieve a true point of difference in their local market. The challenge for operators will be understanding the careful balance between the levels of demand from the target market and how they can sustainably provide a place where competitors become coworkers.



One Roof Women in Southbank.

FRESH UPTAKE IN PEER-TO-PEER OFFICE SHARING

The peer-to-peer economy is fuelling considerable growth in office sharing, with more than 39 per cent of flexible workspace contracts in the segment this year.



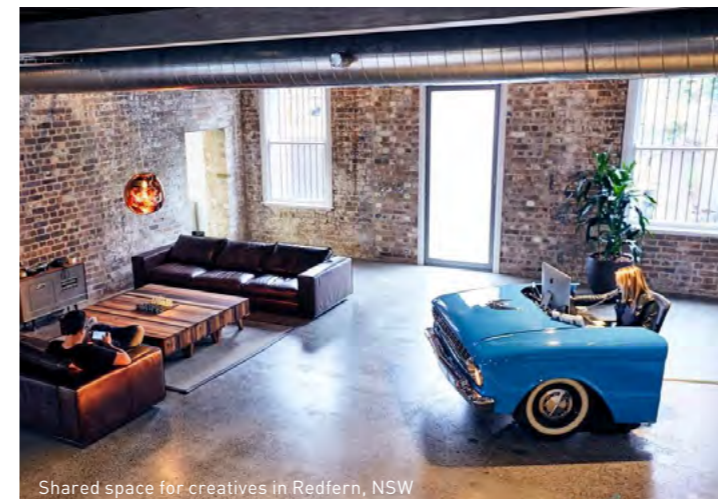
The office sharing sector rose to prominence in the last five years as businesses started to realise the cost inefficiency of commercial leases. An estimated 30 per cent of a commercial office conventionally is underutilised, such as corridors, reception areas and kitchens. Furthermore, the likelihood of a company occupying every dedicated office or workstation in their office at any one time is low – a steady employee count over a period of six months is rare, let alone the duration of a three, five or 10 year lease – and, as such, most commercial tenants are likely to have surplus or a shortage of space at any one time.

As both peer-to-peer sharing and the coworking industry become the new normal, there has been considerable growth in the sector that overlaps the two. A remarkable 72 per cent of flexible workspaces that newly listed with Office Hub in 2018-19 were privately leased offices offered as peer-to-peer spaces, bringing the total number of advertised workspaces in this category to 61 per cent. 39 per cent of workspace agreements this year were in the shared segment, as opposed to managed coworking and serviced offices.

Office Hub was the first peer-to-peer marketplace for office space in Australia, and we continue to record the country's largest dataset on office sharing. While many peer-to-peer platforms face both regulatory issues and liability concerns, Office Hub's certification as a commercial real estate agency ensures both providers and consumers of shared office space are protected by the same property laws as in the commercial office leasing sector.

The global sharing economy is disrupting conventional methods of consumption and has formed a new and significant segment of the Australian economy. From Airbnb to GoGet Car Share, established peer-to-peer platforms have already changed the face of utilisation as they speak to increasing concerns surrounding both personal and business impact on the economy, society and environment. Thought to be a byproduct of the global financial crisis, consumer priorities have changed, ownership has lost the status it once had and "Generation Rent" is equally satisfied with using or renting

everything they need on a temporary basis. There is growing positive sentiment around the notion of "giving back" through offering shared assets and this is translating to ongoing success in the office sharing sector. As businesses seek ways to manage overheads, prepare for economic uncertainty and mitigate environmental impact through the sharing of office space, they also benefit from a positive image within society and heightened collaboration, innovation and knowledge-sharing facilitated by close proximity to other companies and independents.



Shared space for creatives in Redfern, NSW



Shared private space in Inala, QLD.



Operators are reinvesting to meet evolutions in working style, with private offices, collaborative breakout zones and natural light defined as the key design trends.

WorkClub in Barangaroo, Sydney.

ACTIVITY-BASED STYLES OF WORK INFORMING DESIGN MOVEMENT

Operators are reinvesting to meet evolutions in working style, with private offices, collaborative breakout zones and natural light defined as the key design trends of 2019-20.

In recent years, activity-based working (ABW) has risen to prominence despite hot debate regarding its impact on productivity and wellness. Regardless, its uptake has been fast and prominent around the globe, and the majority of Australian companies are implementing ABW to some extent. As flexible workspaces strive to bring in new members, from innovative startups to leading corporations, they must adapt to the latest occupier-led trends to ensure they successfully attract and retain high-growth and big-spending companies. As a result, we are seeing flexible operators develop and design their spaces around the new culture of collaboration, idea generation and activity-based working.

The popularity of activity-based work has stemmed from a variety of factors, including new technologies, remote and flexible working, and the rising need for employees to collaborate and innovate. New technologies have removed mundane tasks from the shoulders of staff, placing greater importance on idea generation and problem-solving activities, while the necessity of a permanent workspace has dwindled by the online storage of data and resources. As the need for a dedicated space wanes, the notion of creating different office spaces for specific work tasks is increasingly favoured. However, the design of these task-based workspaces is pivotal, and will have an inherent effect on whether a workforce embraces or rejects an activity-focused working style. The challenge for workspace operators is designing a space that works for every business and every member's working preferences.

As with many emerging workplace trends, flexible operators are leading progressive change in accommodating ABW through office design. As we reported last year, there's been a distinct movement away from the two "poles" of flexible space design – the collaborative coworking space and the segregated serviced office – towards a so-called hybrid model that harnesses the importance of both private and open spaces. While group and activity-based work is a rising priority, almost 80 per cent of employees say their productivity is influenced by whether or not they have access to a quiet room where they can focus*, and 80.53 per cent of flexible tenants in Australia prefer a private office over an open plan space. With the hybrid model, impactful ABW can be achieved as workers have the option to retreat to their private space for quiet work, which still dominates the working day across most professions and industries.



WOTSO in Pyrmont.



80.53 per cent of flexible tenants in Australia prefer a private office over an open plan space.

The design and style of breakout areas is also important in the success of ABW practices. Flexible operators are moving to a creative, colourful and light-filled look – including traditionally corporate-oriented centres – as businesses become increasingly concerned with the emotional effect of the working environment as well as ways to enhance wellness, inspiration and productivity. It's no longer enough to provide one breakout space, like a lunch room that is also a meeting room, social spot and place for collaboration. As such, we estimate that 30 per cent of a flexible office centre will be allocated to collaborative breakout areas by 2025, coworking desk areas will contract to just 10 per cent, and the majority of space will be dedicated to private office spaces to ensure maximum headcount.

Additionally, offices geared at ABW must incorporate appropriate technologies in order to be effective. Many flexible offices already feature biometric accessibility and online booking systems to reserve meeting rooms and equipment, while operators also need to consider if their IT infrastructure accommodates every business and member. They must essentially partner with the occupying business to ensure each employee can operate at maximum efficiency – it's not just about the connectivity, infrastructure and booking systems, but the ways in which these can be integrated with businesses and member's devices to be practical in the real world.

* Office Finder. <https://www.officefinder.pl/report-bpo-shared-service-centres-employees-speak-out-on-workplace.html>

NATIONAL OVERVIEW



24.4 days
from enquiry to signed lease



12.1 days
from lease signed to move-in



7.5 months
national average lease length



1.5 months
for free as part of the lease



80.5%
chose private office over open plan



3.3 desks
average workspace size

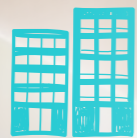


\$586
average rate per workstation

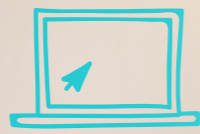


\$16,690
average total contract value

The supply



7 out of 10
new workspaces are private shared space



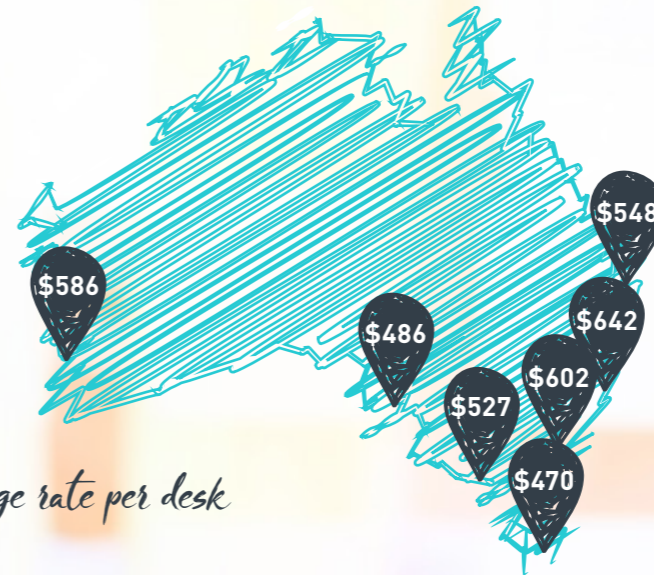
41%
increase in workspace supply



73%
of new workspaces are outside the CBD

REGIONAL BREAKDOWN

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra	Hobart
Average contract value	\$19,065	\$17,183	\$9,148	\$9,819	\$9,978	\$7,687	\$3,554
Average desks per rental	3.6	3.6	3.6	2.4	3.3	2.2	1.8
Average enquiry to move-in (days)	37	34	34	30	35	35	24
Average term (months)	7.3	9.02	9.02	8.38	7.44	4.32	3.61



Average rate per desk

Change in price/desk from previous year:

Sydney	-10.39%
Melbourne	-12.22%
Brisbane	-5.04%
Adelaide	-11.92%
Perth	-2.25%
Canberra	-4.92%
Hobart	-32.85%*



SYDNEY

Sydney's market is feeling the effects of changing attitudes towards flexi space within the corporate and enterprise segment beyond any other city in Australia.

- **Lack of commercial availability challenging both occupiers and flexi operators**
- **Global players initiate market-wide price drop as they lower prices to fill new centres fast**
- **Surge of peer-to-peer office sharing in city fringe and metro areas**

Sydney remains the focal point of Australia's flexible workspace industry, driven by its broad economic base and diverse industry structure. With rates in the commercial leasing sector rising to upwards of \$1,300 per square metre, businesses of all sizes are turning to flexible workspaces in response to increasingly difficult leasing conditions in the central business district.

Ironically, the lack of available commercial property in Sydney CBD is also the challenge for growth in the flexi market. Confidence from tenants may be sky-high, but activity is inhibited by severe shortage of availability – only major players JustCo and WeWork expanded their city footprints this year. Bringing thousands of square metres to the market, they disrupted the city with ongoing reductions in rental rates as they looked to fill their new workspaces fast. The average contract value dropped a significant 18.88 per cent on last year, despite desk count per contract and term length remaining consistent.

Culture and behaviour change among employees has demanded change in real estate and business policies,

with focus now on talent recruitment and retention through culture, tech, location and style. In response, Sydney's major workspace operators are turning attention to specific corporate needs and premium custom builds as opposed to plug 'n' play space in the lower- and mid-tiers of the sector.

However, with limited availability in managed offices throughout Sydney, there was an impressive surge of peer-to-peer office sharing in city fringe and metropolitan locations, relieving ever-growing demand for small, creative community-focused workspaces in Sydney. Darlinghurst, Chippendale, Surry Hills, Redfern and Alexandria are particularly suited to this segment with a high concentration of creative firms often keen to co-create and share overheads.

In terms of workspace design, there has been a notable movement away from open plan coworking towards private space. With softening prices and growth in corporate uptake, more than two thirds of enquirers in Sydney seek a lockable space while just 20 per cent prefer open plan desks. However, desire for collaborative and meeting spaces has also risen to match the importance of high speed internet and furniture. As these trends continue, breakout spaces are expected to form up to 30 per cent of any flexible floorplan in the near future. Across industries, clear preference is for creative fitouts and natural light as workspace impact on employee performance gains precedence.

	2017-18	2018-19	% CHANGE
Average contract value	\$23,501	\$19,065	-18.88%
Average desks per rental	3.5	3.6	2.86%
Average move-in time (days)	38	37	-2.63%
Average term (months)	7.4	7.3	-1.35%



JustCo on Pitt Street, Sydney CBD.



MELBOURNE

- Corporates come to coworking, increasing the enquiries for 40+ people and the average term
- Market splits as big brands target enterprise and boutique operators differentiate for small biz
- Operators encouraged to reinvest in fitout and experience as competition intensifies

As corporates transfer to coworking and the sophistication of spaces and services evolve, Melbourne's flexible workspace sector has entered a second stage of maturity. While demand continues on a steady trajectory, the changing complexion of contracts within the flexible sector point towards the evolving real estate strategy of corporates as well as the ongoing development of Melbourne's coworking supply.

Providers in the first segment are offering pure scale, outstanding quality and the ability to develop large tailored solutions in-house, exemplified by Asian coworking giant JustCo's entry to Melbourne with more than 16,000 square metres of premium product. Responding to increasing concern in corporate land with talent retention and employee satisfaction, these large-scale yet agile operators are winning enterprise business with existing communities, seamless management and the ability to cost-effectively and flexibly house a variety of staff.

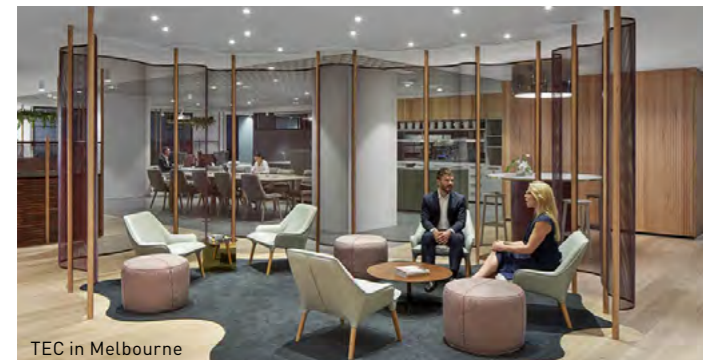
The fringe market is dominated by boutique operators, who are pursuing differential niches by industry, business stage and gender, or offering beneficial access to mentors, overseas markets and funding sources. Despite the crowded market, boutique operators can gain confidence from the Melburnian approach to consumption – occupiers are less swayed by the status of a big brand and they respond to subtlety of messaging and genuine initiatives that build on the local business culture of community and collaboration. In the same way, the advent of peer-to-peer office sharing continues to grow, particularly as creative industries seek to share space, recording a considerable uplift in privately occupied shared offices in Melbourne.

While demand continues on a steady trajectory, the changing complexion of contracts within the flexible sector point towards the evolving real estate strategy of corporates as well as the ongoing development of Melbourne's coworking supply.

More than 80 per cent of enquiries sought private office space while only one fifth were looking for open plan desks, and more than two thirds of enquirers expect their space to be furnished and ready to use upon move-in.

The city recorded a significant rise in enquiries for 40+ people, as well as a 16.14 per cent rise in average term to 9 months. With more corporates in the coworking picture, Melbourne's occupiers are staying longer and moving faster as they realise the advantages of flexi spaces on both business agility and employee performance.

Despite substantial corporate uptake in Melbourne's coworking scene, the in-demand facilities and features remain in line with last year. More than 80 per cent of enquiries sought private office space while only one fifth were looking for open plan desks, and more than two thirds of enquirers expect their space to be furnished and ready to use upon move-in. Fast internet connection and meeting rooms are still the most important amenities, and there's a clear penchant for creative, bright, light and contemporary fit-outs with abundant breakout spaces.



TEC in Melbourne

This year, we saw the flexible workspace sector in Victoria divide into two segments: big brands targeting the corporate market with ready-to-use swing spaces and permanent custom offices, largely in the central business district; and the fringe market, where local operators are tapping into Melbourne's strong startup and freelance category.

While the likes of JustCo and WeWork boast the financial backing to offer a five-star experience at a three-star rate, smaller competitors must be savvy in reinvesting in fit-out and services to remain competitive.

	2017-18	2018-19	% CHANGE
Average contract value	\$16,507	\$17,183	4.10%
Average desks per rental	3.9	3.6	-6.90%
Average move-in time (days)	36	34	-6.25%
Average term (months)	7.76	9.02	16.14%

BRISBANE

- Operators driving growth with high commercial occupancy and reduced workspace rates
- Demand and rental size increase as Brisbane's price-sensitive market warms up
- Value remains overarching concern for tenants

Brisbane's burgeoning flexible workspace sector experienced strong growth this year as enhanced supply brought rates down and encouraged uptake throughout the market. Greater demand, more signed contracts and a larger average size per rental indicate positive growth in this relatively green market, while the contrast of the 5.72 per cent fall in average contract value suggests a lower price point could have been the motivation Brisbane's price-conscious occupiers needed to shift to flexi solutions.

With Queensland's economy outpacing Australia-wide growth, confident operators are driving market progress with their own activities, in contrast to most Australian capitals where tenant demand has typically fuelled early-stage growth. These operators have taken up the highest proportion of city commercial occupancy in Australia, while WeWork's prominent activity included opening 7,700 square metres on Edward Street in December and taking up a further 4,600 square metres on King Street later in 2019. Providers throughout the market implemented competitive rate reductions to such a level that workspaces in the central business district became cheaper than those in many city-fringe and metropolitan locations, which encouraged tenant movement into these premium city workspaces.



The customer profile in Queensland remains similar to last year, with coworking spaces largely the domain of creative, startup and tech firms, and serviced offices the realm of professional services companies. Most enquirers seeking flexible space are moving between centres, rather than out of commercial leases or other solutions, suggesting little movement in attracting those outside of the typical coworking demographic. While corporates, enterprise and other previously atypical coworkers in Brisbane have been largely unsold on flexible space thus far, we expect to see greater uptake in this segment as operators refine their solutions and prove their influence in employee satisfaction and talent retention.

Value is the overarching concern for tenants in Brisbane, and it continues to mask any clear preference trends in regards to workspace style or design.

Value is the overarching concern for tenants in Brisbane, and it continues to mask any clear preference trends in regards to workspace style or design. However, 80 per cent of Brisbane's tenants are searching for private space within shared business centres in line with the national market, and we expect operators to continue to work to the new hybrid model of private offices mixed with collaborative breakout spaces. Furnishings and fast internet were the key prerequisites for office spaces, while increasing occupancy in the city drove demand for proximity to public transport.



	2017-18	2018-19	% CHANGE
Average contract value	\$9,704	\$9,148	-5.72%
Average desks per rental	3.4	3.6	6.13%
Average move-in time (days)	41	34	-16.36%
Average term (months)	6.35	9.02	42.00%

ADELAIDE

- Longer terms and bigger contracts indicate positive growth to come despite a drop in demand
- Affordability and immediacy expected to draw businesses from the tightening commercial market
- Clear sector divide between managed centres in the city and shared spaces in fringe and suburban locations



Despite a drop in enquiries and signed contracts this year, the priorities and intentions of flexible occupiers are delivering strong returns and indicating positive growth to come in the flexible market. With renewed economic confidence and commercial vacancy in Adelaide dropping to the lowest levels in more than three years, we expect to see more businesses shift to the flexible sector, particularly as operators shoulder downward pressure on prices to compete for limited demand. Increased spending in defence, health and resource sectors is expected to cause renewed business optimism through South Australia and translate to positivity in the flexible workspace industry.

Flexible occupiers in South Australia are investing considerably more than in previous years, with the average rental term rising 34.22 per cent to an average of 8.38 months – just under one month longer than the national average. Encouraged by the cost incentives of a 12+ month contract, businesses are choosing to commit for longer rather than gain the flexibility of a month-to-month term. Tenants are also moving in four days faster than in previous years with the average move-in time now at 30 days – these trends have resulted in a remarkable 48.62 per cent rise in average contract value compared to last year’s figure. Together, the patterns point towards positive future growth as tenants prioritise affordability and immediacy that cannot be achieved in the commercial market and, as some are pushed out of conventional leasing, they will identify untapped business advantages from flexible space and breathe new life into South Australia’s static workspace market.

In terms of demand, most enquiring tenants are either working from home or are already occupying flexible space, suggesting there is some work to be done in the visibility and appeal of the segment to larger businesses and corporate firms. There is a higher prevalence of IT, recruitment, education and manufacturing firms moving to flexible office space, while the most requested amenities are free car parking (particularly in the city), high-speed internet and meeting room facilities. Apart from a small creative segment of the market, Adelaide’s tenants prefer private offices and a professional and corporate look over open plan coworking offerings.

There is a clear divide between those seeking space in the city and those looking in fringe and suburban areas such as Norwood, Kent Town Dulwich, Walkerville and Clovelly Park. The geographical split comes with a divide in the nature of supply, with the city offering managed offices and suburban locations almost exclusively providing peer-to-peer shared space. However, there is incredible unbroached opportunity for peer-to-peer office sharing within the CBD, as the coworking profile in South Australia suggests a middle ground between address, location and affordability would widely appeal.



Servcorp in Adelaide

Flexible occupiers in South Australia are investing considerably more than in previous years, with the average rental term rising 34.22 per cent to an average of 8.38 months...

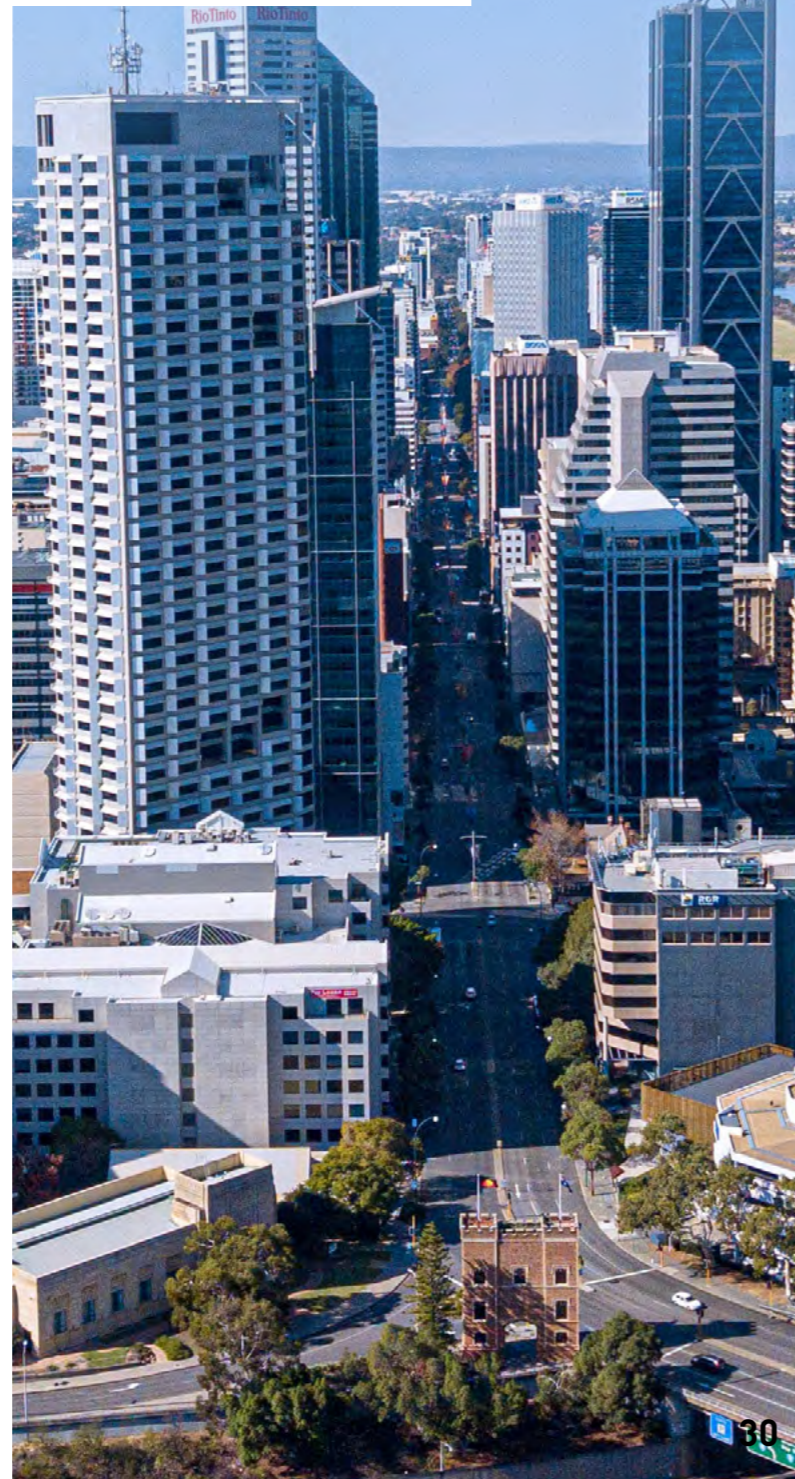
	2017-18	2018-19	% CHANGE
Average contract value	\$6,607	\$9,819	48.62%
Average desks per rental	2.4	2.4	0%
Average move-in time (days)	34	30	-11.59%
Average term (months)	6.24	8.38	34.22%

Perth's workspace sector is set for transformation as global workspace operators look to tap into Western Australia's volatile economy.

PERTH

- Creative shift as WeWork and Spaces bring 14,000 square metres to the market
- Peer-to-peer office sharing tracking impressive growth in CBD and suburbs
- Heightened demand from new branch offices and expansion into Western Australia

Perth's workspace sector is set for transformation as global workspace operators look to tap into Western Australia's volatile economy. Creative players Spaces and WeWork are set to open an estimated 14,000 square metres of flexible space between them this year, changing the face of both supply and style in Perth's coworking scene while meeting the flexibility needs of Perth's dominant business industries. With this year's average rental term gradually growing to 7.44 months and move-in time down to 35 days, complemented by growth in the peer-to-peer sharing sector, recent activity signals long-awaited rejuvenation in Perth's faltering flexi market.



Last year we reported on the lack of creative workspace supply in Perth, which has limited recent growth of the coworking sector in comparison to other capital cities. SpaceCubed has long been the only startup-focused operator in the CBD, now offering more than 5,000 square metres across two centres. Spaces and WeWork are set to accommodate an estimated 2,000 people with a combined 11,000 square metres opening this year at Raine Square and Central Park respectively, while WeWork has also announced a further 3,400 square metres at Northbridge's William Square to launch in December 2019. With the world's coworking giants descending on Western Australia, it's safe to say that the flexible workspace market is set for transformational change in the next 24 months.

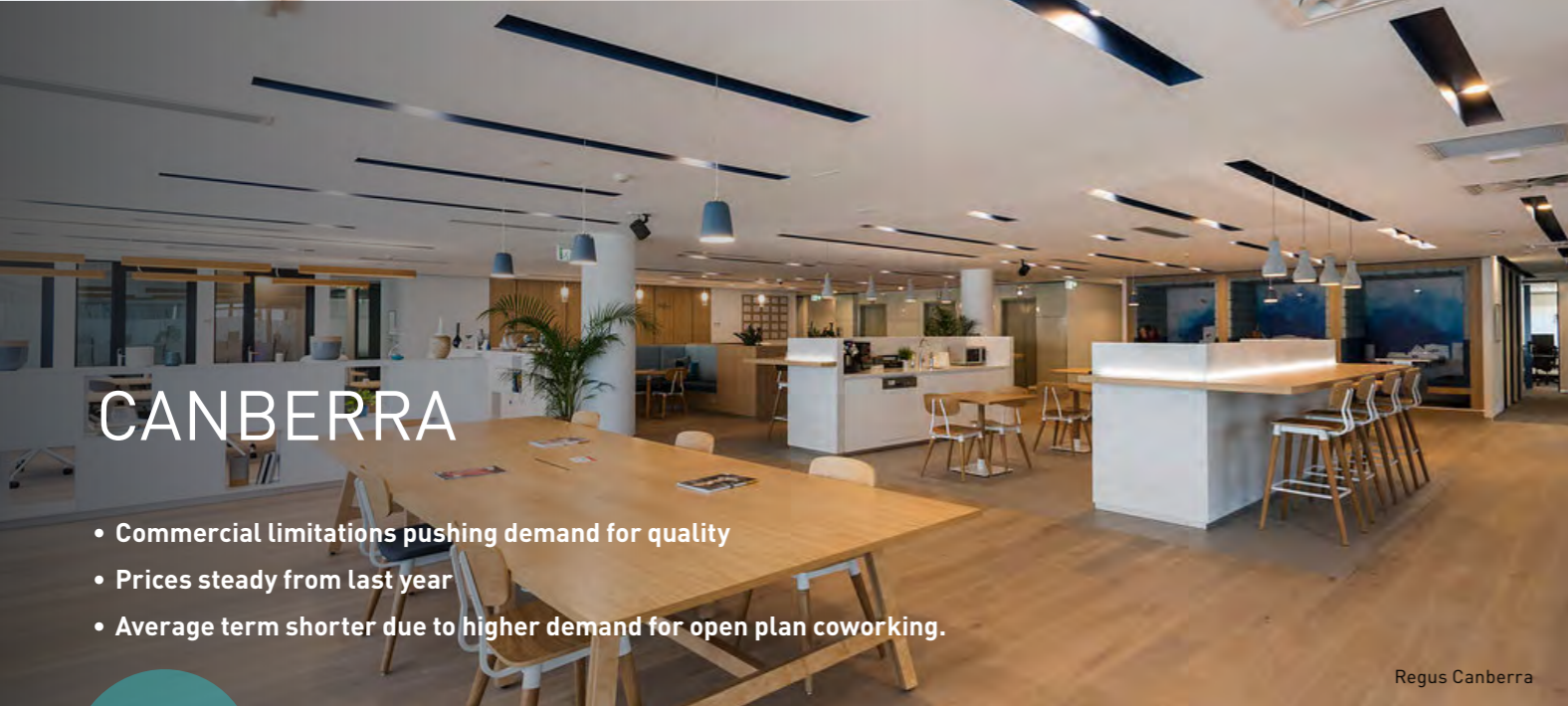
Occupying businesses can take confidence from previous trends in Australian cities, where supply growth has historically led to reduced rates across the board. The average contract value in Western Australia remained around \$10,000 this year but, as these operators bring cheap prices and seemingly unlimited resources, we expect to record a significant softening of rates throughout the year. Local workspace operators will need to explore cost-saving means if they are to compete at lower membership rates, with staff cuts

expected to be the first measure across both the local and national sector. In Perth's traditional serviced office market, providers should look to adapt to changing cultural preferences with breakout spaces and activity-based workstations, while continuing to cater to specific requirements from tenants in Perth – they are highly price- and location-driven, with highway access, secure car parking, affordable meeting rooms and lockable office spaces the most desirable features in an office space rental.

As unpredictability grows in the global mining, energy and export industries, occupiers in Perth are increasingly looking to safeguard operations by tapping into the mobility of flexible space. Peer-to-peer office sharing is an increasingly popular option – while matching the affordability, agility and immediacy of managed offices, Perth's peer-to-peer workspaces are often in non-CBD locations, which is a highly sought-after market gap that perhaps WeWork has now identified with its new Northbridge location. With commentators asserting that the flexible sector would benefit from either a boom or bust in the global economy, both operators and occupiers can expect to benefit from the changing balance in Perth's flexible office market.

	2017-18	2018-19	% CHANGE
Average contract value	\$10,650	\$9,978	-6.31%
Average desks per rental	3.4	3.3	-2.91%
Average move-in time (days)	38	35	-7.88%
Average term (months)	7.23	7.44	3.00%





CANBERRA

- Commercial limitations pushing demand for quality
- Prices steady from last year
- Average term shorter due to higher demand for open plan coworking.

Regus Canberra

With a unique proportion of public sector organisations, growth in Canberra's flexible sector is tracking a different course to other economic centres. The Commonwealth Government leases an estimated 50 per cent of the commercial office market in the Australian Capital Territory, and vacancy rates dropped significantly over the last year, particularly in A and B grade buildings, pushing some commercial demand towards high quality flexible office spaces.

With the combination of shorter terms and larger spaces, the average contract value remained steady year-on-year at around \$7,500. However, a number of factors contribute to the relatively expensive workspace price, firstly with Canberra's tenants displaying a clear preference for quality over affordability, and secondly with a lack of workspace competition ensuring operators can demand top rates without pressure. These patterns play into the typical coworking profile in Canberra, with the majority of activity this year coming from small, white collar, private sector firms along with public sector organisations requiring additional office space due to limitations in the commercial market.

While the rest of the country moves towards a hybrid model of flexible space with an 80.53 per cent preference for private space, Canberra's operators enjoy a

more even split of demand between lockable offices (66%) and open plan workstations (27%). This higher demand for open plan coworking and more flexibility led to a decrease in average term. Creatively-oriented tenants appear to favour open plan coworking, while service- and knowledge-based firms prefer the confidentiality of a private space. In terms of design, there is a clear desire for professional, modern and high quality fitouts, while furnishings, fast internet and meeting facilities are at the centre of tenant enquiries.

Tenants in Canberra are highly location driven, with small businesses preferring to work close to home and corporate branches seeking space close to their clientele. They enjoy a good choice between the two, with operators evenly distributed between Civic and outer locations of Barton, Kingston, Symonston and Canberra Airport – in contrast to a heavy CBD focus across other cities. Servcorp continues to perform in the Civic area, while other popular serviced offices include Regus, Woden Workspaces and Nous House. WOTSO Workspaces's coworking solutions in Dickson and Symonston meet the creative demand in the suburbs, with a newly opened 12,000 square metre centre in Canberra South's district of Woden adding to the city's creative spaces.

	2017-18	2018-19	% CHANGE
Average contract value	\$7,457	\$7,687	3.09%
Average desks per rental	2.06	2.2	5.24%
Average move-in time (days)	30.5	35	15.25%
Average term (months)	5.92	4.32	-27.02%

HOBART

- Strong tenant demand inhibited by lack of flexible workspaces in the central business district
- Desire for flexibility, agility and cost-efficiency in expanding from mainland Australia
- Operator investment required to encourage market momentum

Demand for flexible space is tracking strongly in Hobart with significant growth recorded in both demand and signed contracts this year, as well as faster move-in times and marginally longer rental terms. With the commercial sector's low vacancy rates, Hobart's flexible workspaces are enjoying strong conversion rates as they continue to benefit from a young and unsaturated market. The majority of demand comes from mainland expansion into Tasmania's service-oriented business scene, but tenants are limited by a severe lack of stock in Hobart CBD with only a handful of managed operators and slow growth in the peer-to-peer sharing segment.

The success of Hobart's flexible workspace sector is intrinsically related to the geographical and business identity of Tasmania. A clear service-oriented economy with a rich pool of knowledge-based workers, it lends itself to remote operations and smooth business expansion. This translates to ongoing demand for serviced offices from mainland Australia, as we recorded a 16 per cent uplift in workspace enquiries and an impressive 56 per cent growth in signed flexible contracts this year. The average contract is for 1.8 desks over a term of just 3.61 months – both almost half the national average, despite considerable growth this year – which indicates tenants in Hobart are tentatively setting up

new branches or utilising flexible space for temporary purposes. As such, the average contract value in Hobart is far behind the national average at \$3,554 per agreement.

As a popular satellite location, we expect investment in Hobart's workspace sector to rise as corporate land shifts to flex. Servcorp has already announced a new floor of serviced offices in the Reserve Bank Building on Macquarie Street, while we believe others will also identify the opportunity to tap into strong demand from enterprise outposts and escalating interest from local businesses. At this critical stage of the demand cycle, Hobart now relies on operator outlay to meet continued demand and encourage momentum in the uptake of flexible office space, which could see the city catch up with rapid nationwide growth over the last two years.

Meanwhile, there is opportunity for businesses in commercial buildings to safeguard their lease or investment through the sharing of office space. Tenant sentiment suggests the market would be highly receptive to the cost-saving and eco-friendly benefits of shared space, plus new options in boutique buildings or metro locations would provide a welcome relief for price-conscious tenants pushed out of the CBD.

	2017-18	2018-19	% CHANGE
Average contract value	\$8,228	\$3,554	-56.81%
Average desks per rental	1.8	1.8	0%
Average move-in time (days)	37	24	-35.13%
Average term (months)	8.38	3.61	-56.85%

*The results are skewed due to the low volume of transactions.



WOTSO in Hobart

THE FUTURE OF COWORKING

Big, bold and beautiful is the path forward in 2020 as the world of coworking embraces the concept of industry specific mega centres with state-of-the-art fitouts spanning entire buildings. This will be the catalyst that kills the bland traditional serviced/coworking providers who have not reinvented themselves in look, feel and offering. Undersupply and overwhelming demand has made these providers complacent and time is up as global providers such as WeWork, JustCo, IWG have arrived with deep pockets building collaborative workspaces - one more innovative than the other.

Simple open plan coworking will decline as the demand for four walls takes over, and hot desking will be a buzzword never to be heard again as providers will drive towards committed revenue and loyalty.

Industry specific coworking spaces in fintech, health, recruitment etc will be the saviour of those providers who have a vision new money can't buy. The future is all about collaborating and networking with likeminded businesses in an environment tailored to specific business needs.

If you live in the suburbs, coworking is coming to town, look out! Lower rents, localised flexible working and access to large format space are driving the spread of coworking into suburbia. People want to work closer to home and avoid the commute which is evident by the significant increase in demand we have seen for metro-based locations.

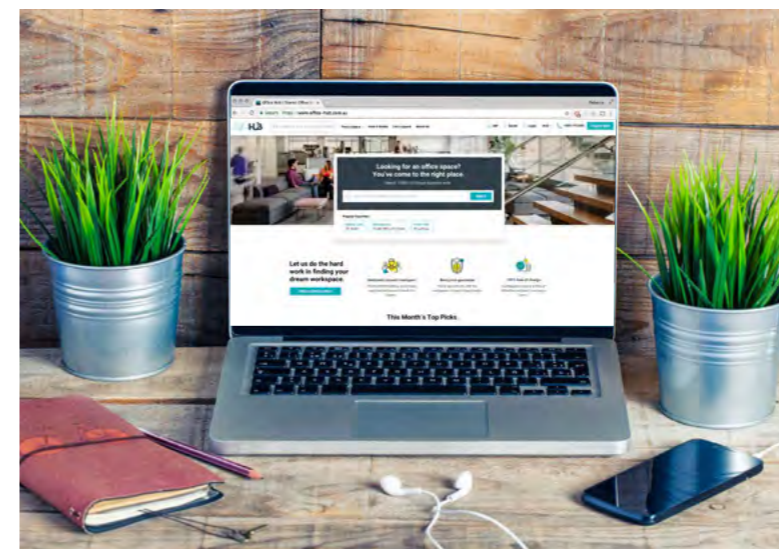
C grade is the new A grade with character and price taking over the demand for harbour views, concierge and towel services.

Managed space is now the way to work for corporations and enterprises, leaving the land of conventional office leasing a questionable commercial decision, especially for growth companies planning their headcount expansion. With the surplus of coworking spaces hitting the market, entire-floor-deals will increase and commercial agents will fill feel the pinch as they struggle to back-fill occupancy in traditional space.

Companies breaking up their space and sharing it will be the winners here as landlords open the doors with flexible contracts supporting shared space. There has been a significant spike in demand to co-share as small businesses want to be part of a community and still feel like they have their very own office - and not just be a number in a big centre. This is especially apparent with companies that have outgrown paying per desk with a coworking or serviced office provider.

The biggest impact will be price as the coworking industry in Australia will embrace never before seen growth in desks hitting the market. This backflip on the historical undersupply of stock will further impact the desk rates with an estimated drop of 15-20 per cent in rates. Logic prevails as you cannot increase inventory up to 30 per cent and not see the laws of equilibrium take over.

Hang onto your tumeric soy latte, 2020 is going to be a big one in coworking.



ABOUT OFFICE HUB

Office Hub is the world's No. 1 website for finding office space, coworking offices, serviced offices, flexible offices and shared office space. We bring all of the world's available workspaces for rent into one search engine so that a business looking for office space can browse the options and organise office tours in a matter of minutes.

We support every enquiry with expert advice and help with shortlisting the best office matches for every business, organising tours and negotiating the best deal for both parties. Friendly, personable and professional, we are workspace experts and passionate about finding the ideal match for every tenant and owner.

Now operating in nine markets across Asia Pacific, Office Hub is helping to revolutionise the global officescape. We combine service with advanced proptech, knowledge and cutting-edge solutions to act as a modern-day commercial real estate agent. With Office Hub, finding or leasing the perfect workspace is only a few clicks away.



ABOUT THE REPORT

All statistics included in this report are based on Office Hub data from FY2018-19 unless stated otherwise.

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