

Briefing

Coworking Trend in The New Normal

June 2020



Covid-19 pandemic has brought the trend of flexible working to a new level. Supported by technology advancement, this way of working practice is seen as a most viable option in the so-called 'new normal'.

Year 2020 looks to be a tough year! In just a blink of an eye, we have seen that many things in our world have changed due to the outbreak of a new pneumonia virus called as covid-19. The world was suddenly put on a standstill and communal activity have been limited, if not restricted – this includes the practice to work in the office.

As the result, companies all over the globe began to implement remote working or 'work-from-home' plan for their employees in order to minimize or cut off the spread of the viral disease.

However, the trend of working from home was started for quite some time now and recently been gaining momentum as new technology and contemporary culture among new businesses – particularly start-up and tech companies – increasingly accommodate this trend. Furthermore, the pandemic is likely to encourage changes in the way people work, thus affect demand in the office market, while flexible working concept will be the new normal.

In the past five years, coworking space grew rapidly, indicating a positive trend.

With the recent outbreak, coworking space operators are facing challenges to keep the business going. Many centers have been closed, yet many others are still positive about opportunities that may arise from this pandemic as demand for more flexible workplace remains robust in some areas. Even if the pandemic is over, flexibility offered by coworking operators may help companies to get their workplace. The pandemic may change the office market, but it is not the end for the coworking space market.

General Impact of The Outbreak

Many countries are struggling to cope with the pandemic, trying to find best solutions to keep their economy afloat while putting the safety and health of their people on the top priority. But each country has different approach and measure to deal with the challenging condition. To avoid the virus from spreading further, most countries have ordered people to stay home and avoid crowds unless for urgent business, thus trigger the world’s largest remote-work practice in the history.

In Indonesia, the government had made various policies to prevent the spreading by applying large-scale physical restrictions and close most public centers including schools, offices, retail centers and tourist attractions. In Jakarta, the Governor has declared a status of PSBB (Large Scale Social Restriction) between April 10 to June 4. In general, the PSBB rule applies to all public areas or workplaces except for 11 ‘essentials’ sectors:

1. Health (hospitals, clinics)
2. Staple/basic goods
3. Energy (water, gas, electricity, fuel stations)
4. Communication (communication services and media)
5. Finance and banking, including the stock market
6. Logistics / distributor of goods

7. Hospitality (hotels, resorts etc)
8. Construction
9. Retail (shopping centers only opened in essential area)
10. Strategic industries (in the capital city)
11. Basic services, public utilities and industries determined as a national vital object

With only those sectors allowed to operate limited in-office work activities, one of the most obvious consequences of the pandemic has been the massive rise in the number of people working from home. Later on, companies started to apply own systems, platforms, apps, and find ways that seemed to work out best for them. As the result, more people became gradually familiar with this culture with the support of tools and technology needed to work remotely.

Some people believe that these changes in working lifestyle may help boost the coworking sector as people needs to work somewhere somehow. However, with the fact that the coworking space is considered to be a melting pot where people from anywhere come-and-go and sit down together alongside each other, people will likely see it quite menacing in regards to the the pandemic. With growing number of infection cases globally until now, unfortunately no shared space is free from the potential of contamination. This creates uncertainty in the coworking sector in the future.

Conventional Office vs Coworking Space



Conventional Office

- Formal and professional client-facing environment
- Privacy
- More control of work environment and human resources productivity
- Consistent access to office supports such as printing, receptionist, etc.
- High value of long-term investment
- Personal branding



Coworking Space

- Less capex or initial investments for space
- Built-in management and no miscellaneous expenses like utilities, renovations, etc.
- Varied workspaces, more relaxed and fun working environment
- Varied workspace locations
- Community-based environment, collaboration and networking opportunities

The Market

In this modern era, big companies, small-to-medium businesses, as well as entrepreneurs are constantly looking out for new ways to improve their business and productivity, including implementing the flexible office solution as offered in the coworking spaces.

The coworking market in Indonesia has been gaining popularity particularly in Jakarta where business and commercial activities are highly concentrated. We estimate that there are currently more than 200 coworking spaces spread across the country, with Jakarta shared the highest contribution nearly 90% of the total stock.

In the first six month of 2020, the Jakarta market saw limited new expansions of coworking space. Several branches with a totaled floor area of 15,000 sqm, were recorded opening-up their doors. They were operated by CoHive, Connex, GoWork, Kedasi, Ko+labora, UnionSpace and Wellspaces.co. This figure showed that the market welcomed a smaller volume of new space in the first half of 2020 compared to 40,000 sqm of new space in the same period last year. With the new expansions, the Jakarta existing inventory of coworking space thus stood at around 200,000 sqm.

Based on location, most coworking space was located in the CBD area (64%). In the non-CBD area, South Jakarta had the largest coworking space supply (18%), followed by Central Jakarta (7%), North Jakarta (6%) and West Jakarta (5%). Supply in East Jakarta was the least compared to other locations.

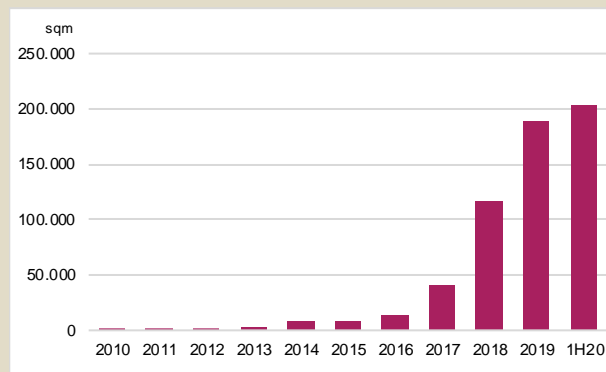
Coworking spaces come with the flexibility of workspaces offering a variety of layouts, including shared open areas, private offices, meeting rooms and event spaces. They provide different types of membership with the necessary amenities for businesses.

Typically, coworking space operators in Jakarta offer membership plans for working both in the open-floor areas and in private office spaces. The open-floor membership has options for daily fees or monthly fees, depending on the used desk, which could be a shared desk or a dedicated one. On the other side, the private office plans allow occupiers for monthly use of an office-like suite with costs differ based on the size of the space. Varies private office spaces were offered to accommodate different needs of the occupiers – from individuals to groups.

In 1H 2020, the average price of shared desk in daily usage was recorded at around IDR 110,000/pax/day and monthly usage stood at IDR 1,600,000/pax/month, whereas the average price of dedicated desk in monthly usage was about IDR 2,100,000/pax/month. On the other hand, private space for larger businesses had a wide range of price, starting from IDR 1 million to IDR 100 million per month (workspace for a single person or teams as large as 20+).

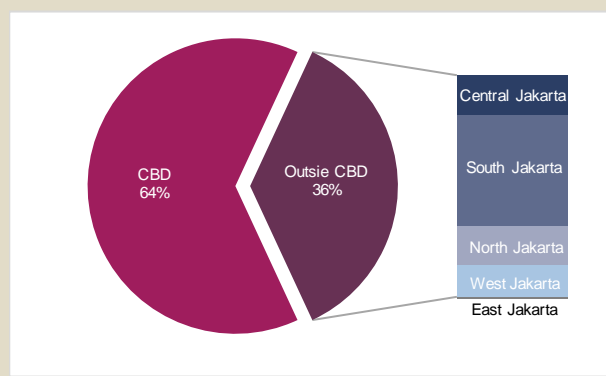
Over the last decade, the coworking space industry has been growing rapidly as demand for flexispace might indicate a positive trend especially in Jakarta. A few big players continued to dominate the market, such as CoHive, WeWork, GoWork, Kolega and UnionSpace. However, many smaller coworking providers were actively fulfilling the needs of workers in the way of collaborative environment and had their expansion plans to capture the growing demand.

FIG. 1
Jakarta Coworking Space Supply, 2010-1H20



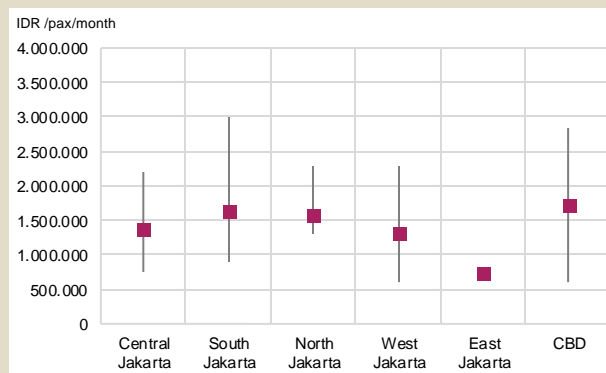
Source: Savills Indonesia

FIG. 2
Existing Supply of Coworking Space by Location, 1H20



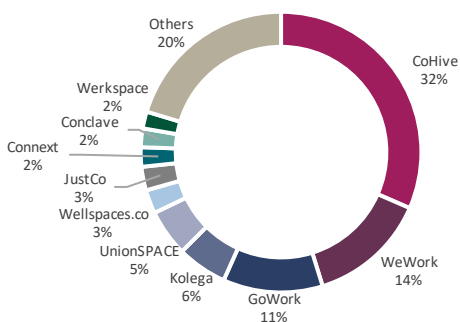
Source: Savills Indonesia

FIG. 3
Shared Desk Price Comparison, 1H20



Source: Savills Indonesia

FIG. 4
Jakarta Coworking Operators, 1H20



Source: Savills Indonesia

Coworking spaces were occupied mostly by young generations - freelancers, start-ups and small teams who preferred taking advantages of a flexible workspace. Yet, there has been an increase in the number of larger organizations starting to utilize the coworking spaces. As the adoption of coworking space continues to grow, operators should pay more attention at making spaces a more favourable environment for remote workers to increase productivity and offer attractive benefits to outperform the market.

Impact of Covid-19 on Coworking Market

For coworking spaces all across the globe, the consequences of coronavirus are far-reaching and have fully altered the way that the spaces carry out daily business. When the recent outbreak of Covid-19 hit, the coworking industry has been faced with the challenge to keep it works. The pandemic that encourages social distancing has driven coworking spaces to come up with effective strategies and at the same time offering supports to the coworking community.

While these consequences are both threatening and highly disruptive to coworking operators across the board, spaces are finding unique ways to deal with the effects of the outbreak in a positive way. By reassessing their services and creating new solutions, many spaces have adopted alternative business models in an effort to not only stop the spread of the virus, but also to support their community's current needs.

In Jakarta, in respond to the pandemic and maintaining physical distancing, most coworking spaces in Jakarta have been closed. Meanwhile, some operators that were still open have decided to operate their physical spaces by applying social distancing protocol within the workspace. Coworking space operators also responded by adapting their business to help the community in facing the current situation. Several operators have decided to focus on online format such as launching events to support their members to stay connected.

Additionally, operators have seen more members choosing to work from home as well as delays of move-in dates for new tenants, and thus offered flexible membership plans such as price discounts or paused memberships to allow them occupy the space later on. Our research found that several operators have offered price reductions for either shared desk or private space during this tough time. Discounts for monthly fee can be up to 40%-60% for shared desk and about 10%-45% for private space.

The Way Forward

One trend that seems to continue taking a rise in the office sector is 'flexibility'. Prior to the Covid-19 pandemic, many companies have been applying the flexible working term, particularly those with superior technology and culture that can facilitate this new way of working. Several companies including start-ups and unicorns have also been witnessed taking up spaces in the coworking space, pertaining to their flexible working term. We see that this trend would likely be continue with many benefits coworking space offer.

This pandemic might lead even more workers to consider using coworking space and opting for more flexible leases. Recent expansions that were announced by several coworking operators were just examples demonstrating the growth of coworking space despite the setbacks encountered during the pandemic.

Coworking basically offers some advantages, particularly to the small-to-medium sized business sub market. Coworking is a much less expensive option. With limited capex for renting or buying a dedicated space, occupiers can have a flexible space in the coworking space equipped with range of services.

Although several coworking spaces have decided to close for now, many operators are remaining positive about the potential opportunities that may come of this pandemic. Here are some approaches on how to navigate the coworking space post the pandemic:

1. Adjustments on business models. This can be in the form of new contract terms that gives more flexibilities to clients during this challenging period, such as more relaxed cancellation periods, or lower pricing to new members and discounts for current members, paused-memberships, etc.
2. Apply sanitation standards. Post this pandemic, more people will put more attentions on hygenes. Coworking operators are expected to apply higher sanitation standards on many touchpoints inside the working spaces as well in the supporting areas. Some spaces and furnitures may also need to be rearranged allowing for sufficient distance between occupiers.
3. Define target markets and more innovations on marketing strategies. Operators will need to creatively think of powerful strategies to regain growth, for example by tapping the university students market, offering online events and workshops, partnerships with local businesses and start-ups, etc.
4. Invest more in technology as it is one essential thing for flexible working. Businesses are built on communication, whether it's interacting with clients and partners, or simply meeting with colleagues. People will highly need a good internet connection as they expect more video conferencing, voice calls, chat, HD video collaboration, etc. These technologies have played a key role in making flexible working worth applying for companies.

Looking ahead, we expect more adjustments to be provided in coworking centers such as fewer hot desks and communal spaces. Also a higher level of hygiene standards applied for both operator and occupiers. We also anticipate more provisions for private areas which deemed as less-profitable spaces for the operators. Furthermore, we expect more limitations on the number of people allowed within common areas at the same time.

Later on when the pandemic is over and the health issues are stabilized, many predict that financial constraints will be the next challenges for everyone. Companies need workplace and various type of work environment provides different culture for different needs of organizations.

As conventional office buildings mostly bear on large-scale and more established corporate tenants, big opportunities also subsist for coworking spaces from other market segments, such as small-to-medium sized enterprises, start-ups, or individual offices (professionals). What define the success rate would be the resilience and the adaptability of market players during this challenging circumstances, then gearing up for acceleration when the world be back to the normal condition ■

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