



Not just (co)working 9 to 5

Could a shift in key regulations be the catalyst for major growth in coworking space during 2019?

The emergence of coworking

Coworking is not a new concept. From its roots in coffee shops and hotel lobbies, the first flexible office space was launched as Regus in Brussels in 1989. Serviced office space and incubators had been around since the 1960s, but there has since been a blurring of the lines between these concepts as coworking.

From 7,800 worldwide coworking locations in 2015, it is estimated that there are now 17,700 locations with forecasts for up to 30,000 locations by 2022¹, representing a compound annual growth rate (CAGR) of 31 percent. Globally, memberships have grown from just over half a million in 2015 to an estimated 2.3 million members in 2018. Memberships are forecast to grow to 5.1 million by 2022.

In the Middle East, coworking has begun to permeate the market with the launch of AstroLabs in Dubai and KSA, Beehive, Emaar's e25, Our Space, 1776, Servcorp's Level 41, Dtech, A4 Space, Youth x Hub, Sheworks, Dour, DIFC's Fintech Hub and Tecom's In5, among others.

Across the Middle East, flexible office space occupies less than 1 percent of the region's office stock, while there are still large international players still not present in the market. In comparison, commercial real estate services company Cushman & Wakefield estimates that flexible workplace providers in London occupy approximately 4 percent of Central London office space and that 21 percent of the office space acquired in the Central London office market during 2017 was for flexible working. In the United States, the total number of coworking operations are greater,

although occupancy reflects approximately 2 percent of stock in key cities.²

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Drivers of growth

We consider that the following factors will be key drivers of growth across the Middle East for coworking:

Ownership

The UAE will announce which sectors are eligible for 100 percent ownership outside its free zones in Q1 2019. It is reported³ that these may include technology, renewable energy and artificial intelligence—all prime small to medium enterprise (SME) markets—thus unlocking demand for potential coworking occupiers. There is potential that this change in regulations may allow companies to maintain a presence in prime areas while seeking out more cost-effective coworking options that, previously, would have only been accessible to onshore companies elsewhere.

Building communities

At the heart of coworking is the notion that “independent professions and those with workplace flexibility work better together than they do alone.”⁴ Coworking has typically attracted start-ups and SME occupiers who see themselves as part of a community. In their 2018 global survey of coworking operations, online magazine *Deskmag*⁵ identified that 81 percent of coworking operations see individual customers as their main target market, while 4 percent see companies with over 100 employees as their main target market. *Deskmag* also indicate that the average age of a coworker is 36, aligning with the large cohort of entrepreneurs in the sub-40 age bracket across the region.

Access to partners

The most successful coworking operations engage with private sector partners who offer occupiers access to technology, software, mentors, funding and a doorstep talent pool. Across the Middle East, coworkers benefit from partners including IBM, Google, Microsoft, Standard Chartered and GE.

IFRS 16

Leases or licenses under 12 months are permitted for exclusion under IFRS 16, indicating there will not be a requirement to capitalize related rental liabilities on an occupier's balance sheet. In view of continued macro-economic headwinds, it may be the encouragement larger corporate occupiers need to view flexible office space as a more mainstream solution to accommodate staff. A number of coworking operators have space that is exclusively tailored to corporate requirements and offer single entity solutions.

Mall vacancies

Looking at global trends, it is not only the office sector where coworking is a disruptor. The United States has witnessed an increasing trend whereby coworking operations are being set up in vacant mall spaces and even integrating retail as part of the coworking environment. In Dubai, space within the Emirates Towers mall has been successfully converted from retail to accommodate the Youth x Hub.

Capital expenditure

A key attraction of coworking space is the initial capital expenditure and time saving when compared to conventional space. Coworking occupiers plug and play without considering fit out and furniture costs, brokerage fees, utilities, broadband connections and dilapidations (to name but a few considerations).

Based on analysis undertaken in Q4 2018, when compared to all the costs associated with conventional space, coworking space can be:

- Up to 50 percent more cost-effective for up to 10 staff on a one-year term
- 5 percent more cost-effective for 10 staff on a three-year term
- Up to 20 percent more expensive for 10 staff on a five-year term

Conclusion

The Middle East, compared to global markets, has a low penetration of flexible office supply when total stock is considered. With new players likely to enter the coworking market, this is likely to change. This change is being driven by opportunities created by new company ownership regulations, preferences of SMEs who are increasingly being run by a younger demographic, changes to

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accounting treatments, market vacancy rates for more traditional forms of occupation and of course, the bottom line—a potential cost reduction. ●

by **Oliver Morgan**, Director, Financial Advisory, Deloitte Middle East

Endnotes

1. Global Coworking Forecast December 2017, GCUC, Emergent Research
2. Coworking 2018, Cushman & Wakefield
3. UAE to announce sectors eligible for full foreign ownership in early 2019, The National, 12 November 2018
4. Coworking Wiki, accessed 17 December 2018
5. 2018 Global Coworking Survey Results, Deskmag