FlySpaces

SPECIAL ON COVID-19

Covid-19 vs Co-working

The impact of this crisis on flexible office space

The crisis of COVID-19 is having an immediate and substantial impact on Real Estate Owners and Services companies. The challenges certainly differ across the value chain, but the situation will certainly lead to winners and losers based on how they respond. In this special edition we focus specifically on the crisis derived by the COVID-19 virus, and we are highlighting some major shifts in commercial real estate that are happening based on our conversations with our existing customers, operators, landlords and on our data mining.

Rising of new segment of customer profiles for Flexible Office Space

A great number of tenants that initially approached to us to seek advice in their search for a conventional office space are currently shifting their requirements towards flexible office space due to the economic uncertainty. This demand is seen mostly from tenants that never considered flexible solutions before and now they are seriously exploring this opportunity for their non core departments, BCP (business continuity planning) and/or for working from home (WFH) solutions. The same profile of customer has shown tremendous interest for our corporate mobility solutions "Passport" (www.flyspaces/passport) which allows teams to work from a selected number of flexible operators across the region.

The crisis will generate a new number of tenants that will experience flexible office space and its benefits for the first time, and increase the likelihood that those tenants will use it for their permanent office in the future and/or include it in their permanent BCP solutions. Similar to first time online shoppers via e-commerce platform as there are no other options available resulting in free customer acquisition cost and growing CLV. (Customer Lifetime Value)

A much greater number of existing tenants in flexible solutions are extending their rentals as well. (Clients with a 3 to 6 months contract are extending for the whole year but asking for rent reduction.

A great question for the future is how flexible operators will be willing / allowed to fill up their spaces in terms of density, until the health crisis is completely gone and how tenants / employees will be comfortable with density of spaces (both conventional and flexible).
Is this a real topic moving forward as we all know that proximity between the workstations is not the only concern. Common facilities such as pantry, meeting room and everything else is.

Developers will aggressively enter the Flexible Space

While a number of developers like Philippines' Ayala (with their own Clock In brand), Singapore' CapitaLand Ascendas (with Bridge+) and Keppel (with Kloud brand) are already operating their own flexible solution, even boutique or smaller developers will be accelerating to enter this space, if they have not done so already..

The trend of developers across Asia also opening their own flexible solution brand will accelerate quickly. Developers now understand that flexible solutions are here to stay, and with the current economic uncertainty lots of tenants will prefer to have a flexible only or mix used solution (conventional / flexible) ideally in the same building - and these developers are uniquely positioned to offer this solution.

This will bring additional capacity to the market but at a much more competitive price, as developers do not have the underlying cost of rent in their financial model, their objective is to mitigate conventional office space exposure and - where possible - getting a higher yield on their flexible solution, which is totally possible.

Notable Example:

Singapore:

1) *BRIDGE+ 3 floors of private offices and events, 56,000sqf managed by Capitaland same as CoSpace and workstations located in other Ascendas-Capitaland buildings), with customer profile of 20 PAX*
2) C-SUITE (owned Lendlease): Customer profile 30 to 200 PAX
3) Kloud (Keppel Land): Customer profile 20 PAX

Hong Kong

1) Blue-Print (Swire Property). Mostly for servicing existing tenants in the build and between 4 to 20 PAX people.
2) Eaton Club (Great Eagle Holding), customer profile from 2 PAX to 40 PAX

Philippines:

1) Ayala's Clock-in, with 7 locations across the city targeting tenants of 5 PAX and above (mostly local markets of SMEs)
2) Robinsons' Workable with 2 locations with more in the pipeline, targeting PAX of 5 and above

Some developers are getting ready to potentially acquire (and consequently run) the operations of defaulting operators in their buildings, as they will end up owing the fit-out investment of the operators, they will have no CAPEX cost.

At FlySpaces we are already assisting various developers in the studying phase of adding flexible office space in their buildings, our data is being used to help better assess the financial feasibility of each location.

Existing small operators will suffer and potentially close.

A number of small flexible office space operators that do not have enough cash reserve to go through this storm will potentially close, unless they manage to renegotiate rentals with their landlord and leverage the surge in demand.

This has a marginal impact on our business as 80% of our leads are generally closed with the top 10 operators in each country where we operate and they are not facing major cash flow issues (I.e. Spaces, Regus, KMC, Common Ground, Co-Hive), and more and more directly with landlords

Among the top operators, WeWork may receive additional pressure on their already unstable economic situation, but so far the locations across our markets have been filled up with no problems.

A question for the operators would be:

Would the financial stability of the coworking operator will become a search criteria for incoming tenants?

Resources: we made publicly available our data you can find it in our resource centres:

https://explore.flyspaces.com/reports-and-guides

Stay Safe, exercise and eat healthy.
Mario Berta
CEO, Founder, FlySpaces