
The Rise of Flexible Workspace in Penang, Johor and Kota Kinabalu

- *Flexible workspace is on the rise in Asia Pacific, supplied not only by co-working operators but by landlords and developers who are actively moving into the marketplace themselves.*
- *Several Fortune 500 companies such as the likes of Google and Petronas have started to embrace co-working and flexible workspace in Malaysia.*
- *Strong latent demand expected to spark the proliferation of co-working space.*

15 November 2018, Malaysia – The demand for flexible workspace is set to accelerate as over two thirds of global corporates plan to increase their use of flexible co-working and collaborative space over the next three years, according to **(Y)OUR SPACE** – a new report on workspace occupier solutions by Knight Frank.

Nicholas Holt, Asia-Pacific Head of Research, Knight Frank, says, “Among some of the world’s fastest-growing economies, innovation and collaboration have led to a significant increase of co-working across key Asia Pacific office markets. Flexible workspace is on the rise, supplied not only by co-working operators but also by landlords and developers who are increasingly moving into the market directly themselves.”

In this disruptive digital age, the global business structure and culture are undergoing constant revision and in Malaysia, there is no exception. Co-working space, which allows independent and mobile professionals to work alongside one another but on their own projects, encourages social interaction that may well be the dynamics that affect demand.

This business culture has led to the rapid growth of co-working space operators in major cities across Malaysia. There are now over 70 operators and 100 outlets across Klang Valley, with 53% of them operating from office buildings while the rest are spotted in shoplots, retail podiums and shopping centres.

Notable industry players who operate more than ten outlets are Common Ground and Regus Malaysia.

Prominent co-working space operators such as the likes of Regus and ADA have made inroads to Penang and are still actively seeking to expand their presence in the state. Local operators are also starting to emerge especially in established urban areas such as Georgetown and Seberang Perai, supported by the availability of amenities and good connectivity cum accessibility. The growth of co-working space is mainly fuelled by strong demand from freelancers as well as CAPEX contribution by landlords.

In the southern state of Johor, the co-working space arena is mainly dominated by diminutive local operators, operating in shop-offices with start-ups being their main target market. Regus is currently the only notable operator, which has a presence in the state. Moving forward, strong latent demand for co-working space as a result of shift in business cultures and structures is expected to fuel growth of the industry. As major occupiers of co-working space in Johor comprise of start-ups, price sensitivity remains high. Henceforth, operators must strive to provide reasonably priced packages in order to gain market share.

Similarly, Regus is again the only full-fledged co-working space operator in Kota Kinabalu, with the rest being small-scale local operators. In the local context, the concept of flexible workspace is still relatively new and traditional office space is still the preferred choice among home-grown SMEs. However, the trend of co-working space is expected to grow, albeit at a gradual pace as the concept gains traction among start-ups, freelancers, independent contractors and multinational firms that need a temporary base of operation for quick market entry. For example, we are given to understand that Regus is performing favourably in the city and is now seeking to expand into other localities.

Teh Young Khean, Executive Director of Corporate Services at Knight Frank Malaysia, says, “The local and international flexible office providers are continuing to grow in Kuala Lumpur and Selangor. We are witnessing more landlords/developers willing to partner with operators to set up flexible workplace in their buildings. As of today, notable co-working and serviced office operators occupy in excess of about 1.1 million sq ft of commercial space across KL and Selangor.”

Tay Tam, Executive Director at Knight Frank Penang, says, “With flexibility and speed being key to many modern enterprises, co-working space is set to be a major trend in the future. Space requirements generally comes from both local and MNCs with a mixed trade - IT and related industries, logistics, insurance, recruitment etc.”

Ricky Lee, Executive Director at Knight Frank Johor, says, “Developers have become more innovative and have showcase new possibilities to end-users, the younger generations are looking at the added value of new space and in tandem, operators of co-working space in JB are needing to jump into the bandwagon to introduce space that attracts young talent. It is still a hurdle to match the cost of providing new funky spaces and the bottom line of businesses.”

Alexel Chen, Executive Director at Knight Frank Sabah, says, “Despite the growing trend of co-working space, the underlying key to success for industry stakeholders depends on the knowledge of the consumer’s needs and financial capabilities.”

Outlook:

In conclusion, major cities beyond Klang Valley such as the likes of Penang, Johor and Kota Kinabalu have also experienced a surge in co-working space. This trend is primarily fuelled by the strong demand among start-ups and freelancers alike. It is also worth mentioning that while occupants in these cities still do not highly value the collaborative environment and favourable ergonomics offered by co-working spaces, this element is expected to become increasingly relevant in determining the performance of co-working space beyond the Klang Valley as more millennials, who value experiences more than their older counterparts, start to enter the workforce in these cities.

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