RESEARCH

# SYDNEY COWORKING INSIGHT

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Knight Frank

THE GROWTH, TRENDS AND DRIVERS BEHIND SYDNEY'S COWORKING INDUSTRY

The number of coworking locations globally is expected to increase by 25% in 2017 to 12,700 with the number of "coworkers" surpassing one million.

The changing nature of work, advancement in technology, the rise of a sharing economy and changes in workforce demographics are the key factors driving coworking in Australia.

Accessibility to corporate headquarters, the emergence of the Fintech sector and a vibrant start-up ecosystem are the primary drivers behind Sydney's coworking industry.

Over the last ten years, the amount of coworking space across Sydney has grown by 41% per annum from 1,400m$^2$ in 2006 to 44,182m$^2$ by October 2016.

The Sydney CBD has experienced the strongest coworking floor space growth, growing from virtually no coworking facilities five years ago to 15,674m$^2$ as at October 2016.

By the end of 2017, there will be more coworking space in the CBD (26,824m$^2$) than any other parts of Metropolitan Sydney.

ALEX PHAM
Senior Research Manager
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# INTRODUCTION

## The Coworking Evolution

Since the first coworking space was founded by Brad Neuberg in 2005 in San Francisco in the US, the coworking movement has become a global phenomenon over the last decade. According to reports by Deskmag, there will be more than 10,000 coworking spaces worldwide by the end of 2016 with 735,000 members. The number of coworking locations globally is expected to increase by 25% in 2017 to 12,700 with the number of "coworkers" surpassing one million. In 2016, coworking space operators have raised almost USD1 billion with WeWork being the industry champion, raising USD800 million for their global expansion.

Australia was one of the earlier adopters of the coworking movement outside of the US, with coworking spaces opening in the country as early as 2006. Coworking spaces have since mushroomed across all Australian states and territories with the services-oriented states of New South Wales and Victoria being at the forefront of this evolution. As such, the two state capital cities of Sydney and Melbourne are now homes to very vibrant coworking communities in Australia.

The rapid expansion of shared work spaces across Australia has been underpinned by a number of factors. Whilst the changing nature of work, advancement in technology, the rise of a sharing economy and changes in workforce demographics are the key catalysts driving coworking nationally, accessibility to corporate headquarters, the emergence of a strong Fintech sector and a cohesive startup ecosystem are the primary drivers behind Sydney's coworking evolution.

Sydney is home to 12 of the top 25 ASX-listed companies and 30 of the top 50, according to Knight Frank Research. In addition, many of the global Fortune 500 companies have their regional or national head-offices in Sydney including technology giants, such as; Apple, IBM, Amazon, Microsoft, Google, HP and Samsung.

Moreover, Sydney has the largest start-up ecosystem in Australia, ranking 16th globally and first nationally according to the 2015 Global Startup Ecosystem Ranking. More than 60% of Australian start-ups are based in Sydney, according to PWC's latest statistics. This ecosystem is further enhanced by the availability of a deep talent pool, with 37% of Australian IT professionals (160,000 people) residing in Sydney.
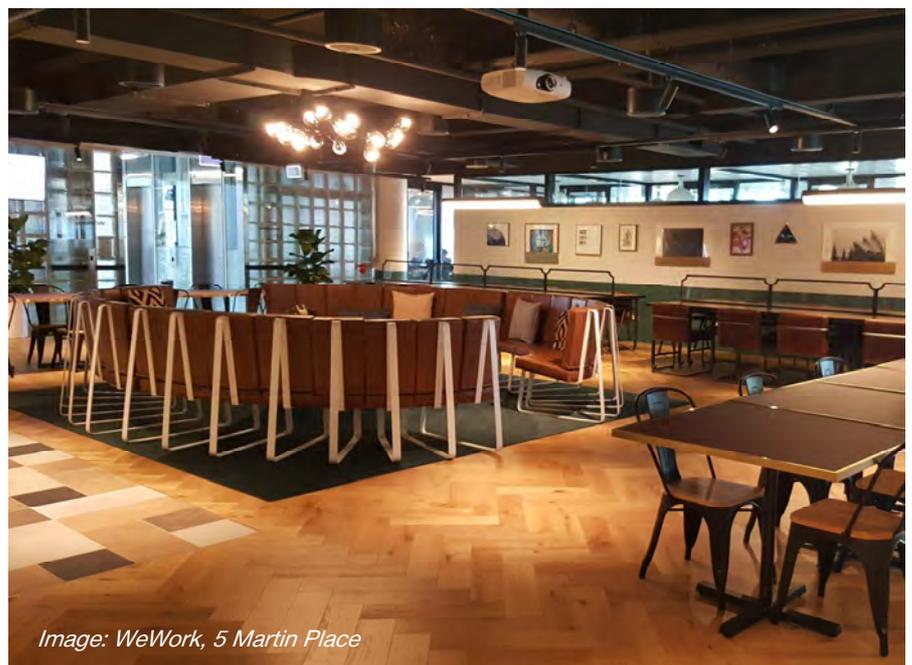

*Image: WeWork, 5 Martin Place*

# THE SYDNEY COWORKING INDUSTRY

The coworking industry in Sydney has evolved rapidly over the past decade. From just a handful of collaborative workspaces ten years ago, there are now 56 coworking spaces (excluding serviced and subleased offices) in Sydney across three primary submarkets; the CBD, City Fringe and Suburban (Figure 2).

The area of coworking space across Metropolitan Sydney has grown from around 1,400m$^2$ in 2006 to 44,182m$^2$ as at October 2016. This represents a compound annual growth rate (CAGR) of 41% over the past decade. By the end of 2017, the total coworking space is expected to reach 55,332m$^2$, almost half of which will be located in the CBD.

Whilst the amount of coworking space in Sydney is currently less than Melbourne (58,880m$^2$), Sydney tends to have larger spaces than Melbourne. As at October 2016, the average size of coworking spaces in Sydney is 789m$^2$, more than double that of 385m$^2$ in Melbourne. Given relatively higher office rents and operating costs in Sydney, achieving economies of scale is critical for coworking space operators in Sydney.

Sydney's coworking market is dominated by large-size coworking hubs (1,000m$^2$+). Almost three quarters of the total

coworking space in Sydney (32,600m$^2$) was provided by 15 coworking hubs of above 1,000m$^2$ each (Figure 3). As at October 2016, there is one space of over 5,000m$^2$, which is the new WeWork space at Pyrmont offering 8,000m$^2$– the largest coworking hub nationally. In fact, there is more space at WeWork Pyrmont alone than all 35 coworking spaces in the sub-500m$^2$ bracket combined (6,910m$^2$). There are six coworking sites between 500m$^2$—1,000m$^2$ with a total of 4,680m$^2$.

## Sydney CBD

Over the last few years, there has been a growing tendency of coworking operators gravitating towards the Sydney CBD. Whilst the majority of coworking locations remain in the traditional "creative" suburbs in the City Fringe precincts, the Sydney CBD saw the strongest floor space growth over the last five years.

From virtually no coworking facilities (circa 140m$^2$) in 2011, the Sydney CBD now hosts 15,674m$^2$ of coworking space as at October 2016, representing a CAGR of 157% pa. As seen in Figure 1, the areas surrounding Wynyard and Circular Quay precincts in the CBD have the highest density of coworking space in Sydney. Interestingly, the majority of coworking space in the CBD (66%) is located in prime office buildings rather

than secondary, illustrating the strong preferences of coworking occupiers for prime sites in the CBD.

The strong growth of coworking in the CBD is showing no sign of slowing, with the total area expected to almost double by the end of next year to 26,824m$^2$. In fact, there will be more coworking space in the Sydney CBD than any other parts of the city. The CBD will account for almost 50% of the total coworking space across Metropolitan Sydney.

Contributing to this strong growth in the CBD is the arrival of the world's largest shared office space operator, WeWork, at DEXUS' 5 Martin Place, occupying 3,260m$^2$ and the rapid expansion of CBD-based coworking hubs, such as; Gravity, Stone & Chalk and Tank Steam Labs over the last few years.

Specifically, Gravity has almost doubled their footprint from 950m$^2$ to 1,800m$^2$ in the past two years at Brookfield's 50 Carrington Street, whilst Stone & Chalk has expanded exponentially from an initial area of 650m$^2$ to almost 3,000m$^2$ within the first year of operation at AMP's 50 Bridge Street. Similarly, Tank Steam Labs started off with 500m$^2$ at 17-19 Bridge Street but has expanded to 2,800m$^2$ over five floors over three years.

FIGURE 1
**Sydney Coworking Spaces Heat Map**
By Area (m$^2$)
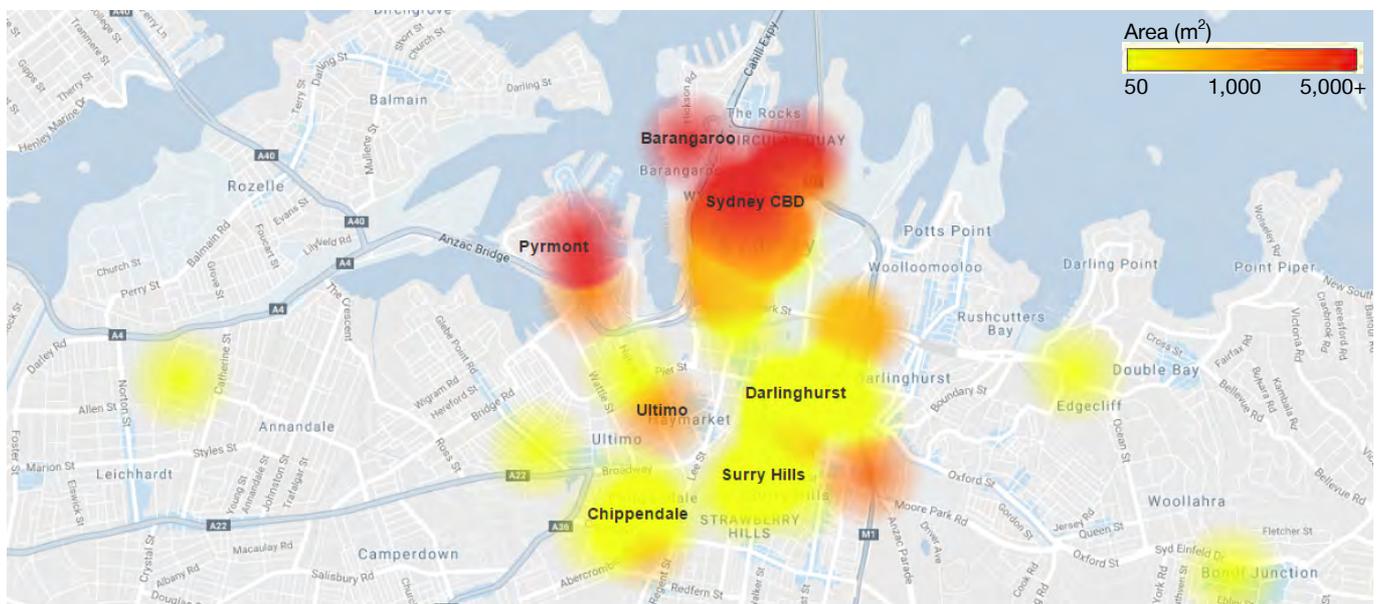


**Source:** Knight Frank Research

Looking forward, WeWork will continue to strengthen their CBD footprint with a 4,000m$^2$ pre-lease at the newly constructed 333 George St. In addition, the world's fastest growing shared space provider is reportedly in negotiation to occupy Lendlease's timber building called the International House Sydney Tower or C2 at the Barangaroo precinct. These deals, together with the 8,000m$^2$ at Pyrmont, will see WeWork's commitment in Sydney surpassing 22,000m$^2$ across four locations by the end of 2017.

The Sydney CBD is also excepted to see a cohort of new spaces in the coming 12 months. Fishburners will relocate and expand from 1,000m$^2$ at Ultimo to circa 6,000m$^2$ at an undisclosed location in the CBD. Following its success at Darlinghurst (operating at capacity), Hub Australia plans to expand into the Sydney CBD in 2017. Your Desk is also gearing up for a new location in the CBD (300m$^2$) to be opened early next year.

The ongoing withdrawal of office stock is also seeing the reshuffling of some coworking occupiers within the CBD. In particular, iCentral has relocated to Aurora Place (88 Phillip Street) from 234 Sussex Street, which is being converted to residential. Stone & Chalk is currently in the market for up to 4,000m$^2$ (a 30% expansion from their existing space) since their current building at 50 Bridge Street is set to be redeveloped by AMP Capital.

Whilst CBD-based coworking hubs tend to cater for more established startups and enterprises, which are transitioning to scaling and commercialisation (typically with teams of more than five members), coworking facilities in the City Fringe remain appealing to startups in the development and validating phases (typically with less than five members), due to affordability.

## City Fringe

Across the City Fringe, there are 27 coworking spaces with a combined area of 19,775m$^2$ as at October 2016. The average size of coworking spaces in the City Fringe is 732m$^2$. However, once the 8,000m$^2$ WeWork facility at Pyrmont is excluded the average size of the Fringe locations is only 451m$^2$. Almost half (48% -by number of spaces) of the City Fringe coworking spaces congregate around the "creative" suburbs of Surry Hills (33%) and Darlinghurst (15%). However, Pyrmont is the largest coworking precinct in terms of area (47%) due to the presence of WeWork.

The coworking industry has brought significant benefits into the Fringe suburbs of Sydney. Not only has it supported employment and suburb gentrification, many coworking spaces are occupying renovated commercial buildings, which had been vacant for a long time. For example, 100 Harris Street had been left vacant for many years before being revitalised and leased to WeWork.

## Suburban

The evolution of coworking in Sydney has also spread beyond the CBD and the Inner City, with coworking spaces now available in many outer suburbs, such as; North Sydney, Strathfield, Parramatta, Penrith, Wyong and Oran Park.

As at October 2016, there are 18 coworking facilities in suburban locations spanning across 8,732m$^2$ of office space. In terms of floor space, North Strathfield is the largest suburban location (22% of total suburban space), followed by North Sydney (21%) and Neutral Bay (19%).

## Major Providers

As at October 2016, the top 14 providers account for 81% of the total market (Table 1) with WeWork being the market leader with a 25% market share or 11,260m$^2$ across two locations (growing to 22,110m$^2$ in four locations next year).
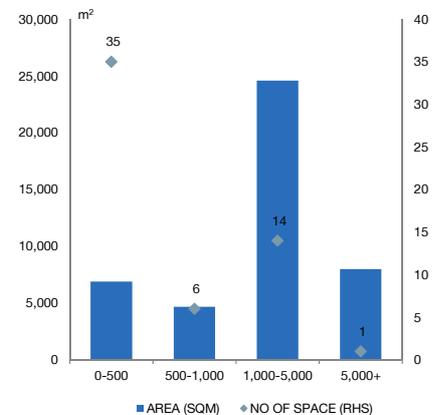
WOTSO is the second largest player with 5,090m$^2$ across Sydney. Whilst WeWork dominates the Sydney CBD, WOTSO, backed by ASX listed BlackWall Property Funds, focuses their expansion into the suburbs. Established in 2014, WOTSO Workspace now has four locations across Metropolitan Sydney, including; 55 Pyrmont Bridge Road (1,310m$^2$), Pyrmont, 50 Yeo Street (1,700m$^2$), Neutral Bay, 5 George Street (1,880m$^2$), North Strathfield and 95b Station Street (200m$^2$), Penrith (former iWork@Penrith).

Other institutional property operators have also jumped on the bandwagon. GPT, one of the largest listed property groups, has opened their own coworking spaces in Sydney under the "Space&Co" brand at 580 George Street (281m$^2$) in the CBD and 10-14 Market Lane (268m$^2$) at the Rouse Hill Town Centre, 50 km north west of the Sydney CBD.

## Pricing

With respect to pricing, costs vary greatly across precincts and space quality. In the CBD, the monthly cost for a full-time dedicated desk range from $625 to $900, averaging $729 as at October 2016. WeWork, for example, is offering $850 per month for a full-time dedicated desk or $3,800-$4,700 for an office of four.

For Fringe locations, the average cost for a full-time dedicated desk is $555 per month (24% lower than the CBD) with a range of $400-$858. Prices in the suburban market are slightly lower than the Fringe averaging $514 per dedicated desk per month and ranging from $240 to $780 per dedicated desk per month.
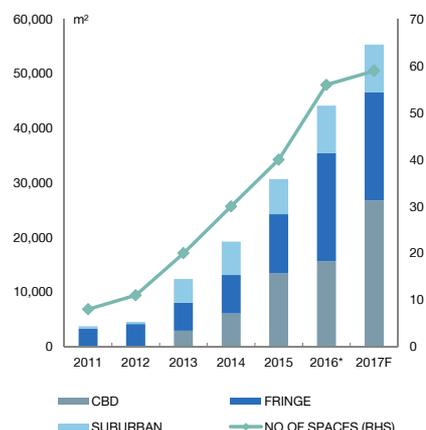
# FROM CREATIVE FRINGE TO THE CBD

The ongoing shift of coworking hubs from the creative Fringe into prime locations in the CBD is underpinned by the transformation in the type of end users that are now embracing coworking. Once catering exclusively for startups and freelancers, coworking or shared spaces have now become an attractive and practical alternative to traditional offices for established corporations. The CBD remains a favourable location by many occupiers, particularly in the Fintech sector, due to access to talent, public transportation and close proximity to other corporate headquarters.

In the US, established businesses such as General Electric, KPMG, HSBC, IBM, Dell, Facebook and Amazon, to name just a few, have all set up their bases in coworking spaces. Similar trends are emerging in Australia. E&Y, for example, have arrangements for their teams to work out of Tank Stream Labs in Sydney. WeWork Australia also has plans to attract established corporates into their coworking spaces similarly to their strategy in the US.

As for the Sydney CBD, rising office rents and declining vacancies due to stock withdrawals over the next three years will make coworking spaces a viable and affordable option for many corporate tenants who wish to remain in the CBD.

Our analysis shows the average accommodation cost in a coworking space in the CBD is currently between $7,600 to $11,000/desk/year. In comparison, the effective accommodation cost (inclusive of fit-out costs and incentives) for a B-grade building in the CBD is between $10,000 and $11,000/desk/year and that for prime spaces is between $12,000 and $14,000/desk/year as at October 2016.

Another major benefit to larger firms to move into a coworking space is the flexibility to scale up or scale down relatively quickly, particularly for their project spaces. In addition, there is an opportunity for established businesses to foster innovation and creativity by accommodating their employees in the coworking environment. Opportunities for cross-selling between community members are also plentiful.

The growth of the businesses based at coworking spaces and the emergence of a new segment of corporate members and "seniorpreneurs" are driving a significant evolution in coworking workplace design. Moving away from the origins of traditional hot-desking for freelancers, coworking offerings now include small and large private offices, dedicated desks, onsite cafeterias, premium meeting spaces and childcare. For example, HUB Australia's newest space, HUB Southern Cross, located right in the heart of the Melbourne CBD, also includes a gym, a media room, relaxation space and end-of-trip facilities.

> "Coworking members enjoy the excitement, amazing workplaces and social connections of being part of something much bigger."
>
> Bradley Krauskopf
> CEO and Founder
> Third Spaces Group & Hub Australia



*Image: Hub Australia, Darlinghurst*

TABLE 1
**Major Coworking Providers in Sydney (1,000m$^2$+)**

| Rank^ | Operator | No. of Locations | Total Area (m$^2$)* | Market Share |
|---|---|---|---|---|
| 1 | WeWork | 2 | 11,260 | 25% |
| 2 | WOTSO | 4 | 5,090 | 12% |
| 3 | Stone & Chalk | 1 | 3,000 | 7% |
| 4 | Tank Stream Labs | 1 | 2,800 | 6% |
| 5 | Gravity | 1 | 1,800 | 4% |
| 6 | Your Desk | 3 | 1,660 | 4% |
| 7 | SPACES | 1 | 1,517 | 3% |
| 8 | The Bays | 1 | 1,500 | 3% |
| 9 | The Office Space | 2 | 1,500 | 3% |
| 10 | Tyro | 1 | 1,333 | 3% |
| 11 | Hub Australia | 1 | 1,150 | 3% |
| 12 | Fishburners | 1 | 1,100 | 2% |
| 13 | BlueChilli | 1 | 1,050 | 2% |
| 14 | iCentral | 1 | 1,000 | 2% |
| **Top 14 Providers** | | **21** | **35,760** | **81%** |

**Source:** Knight Frank Research
^By Total Occupancy as at October 2016 (m²)
*Knight Frank estimates

# SYDNEY'S FUTURE AS A COLIVING, CO-FUNCTIONING HUB

## The fixed address of the future will be one's email.

Across the US and throughout Europe the popular collaborative coworking movement and the millennial trend of transience, technological reliability, and lack of ownership, is playing a key part in the emergence of a new coliving movement, and powering the flourishing institutional private rental sector (PRS).

Since the mid-1970s social and economic changes in Sydney have altered the demand for alternative housing types, away from the more traditional detached dwelling structure. A further 856,000 people are projected to call the Sydney Metropolitan region home by 2026, with 52% of residents anticipated to gravitate towards the inner and middle ring of the Capital City. Technological advances, global mobility, essentiality of flexibility and a lack of affordable and/or desirable housing options will direct these people to a new form of institutionalised private rented housing.

This will be in the form of PRS or build-to-rent, where the asset is built or reconfigured for long term rent, not sale - a purpose built student accommodation model for young professionals and early families. Serviced apartments allow for space and privacy in your own surroundings, their key differentiator from hotels, however they do not provide for a sense of community or lifestyle meaning, which differentiates this new form of renting from any other. Only recently have the first groups begun to establish platforms to develop and operate in this sector within Australia, with Macquarie Capital and Greystar being one example.

Coliving blends this PRS concept a little further and introduces the ideas behind coworking. Defined by *coliving.org* as "shared housing designed to support a purpose-driven life and a modern, urban lifestyle that values openness, sharing, and collaboration".
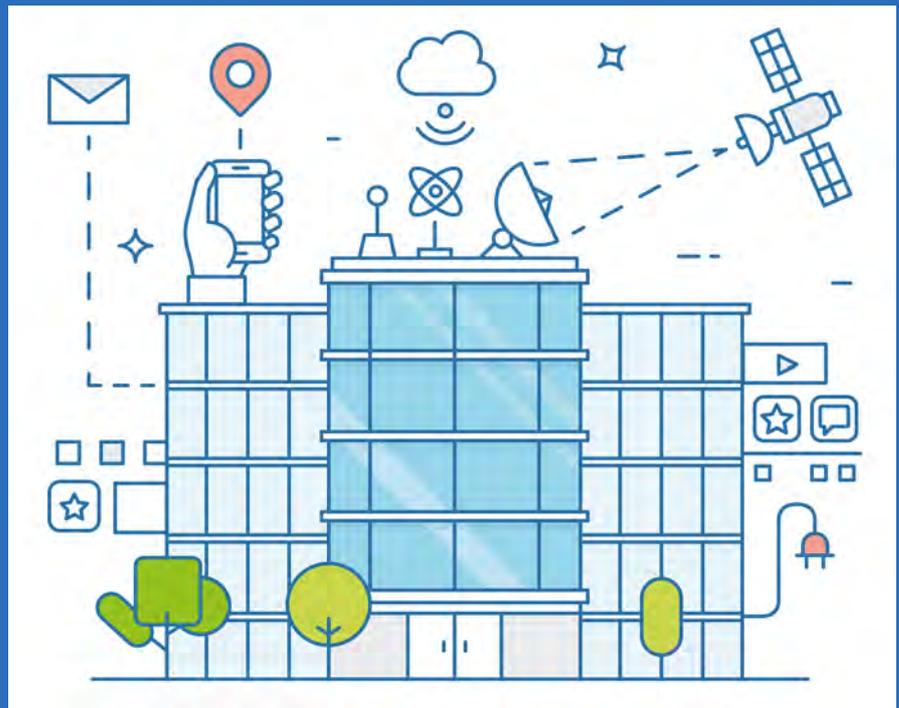
WeLive, an offshoot of WeWork, has already begun to offer private bedrooms and studios within residential coliving neighbourhoods, occupying a former office building in the heart of New York's financial district and another located just south of downtown Washington, DC.

The attractiveness of a consistent rental income stream, in this low interest rate environment, a growing belief by millennials and the iGeneration in fostering community and meaningful relationships through the use of technology, will open the door to new real estate opportunities on our shores. Coliving, and institutional PRS, as heralded in the US and Europe, may soon be the models adopted for development in Sydney, albeit yields remain low.

Adapting living city policies and creating a dynamic smart urban environment are high on the agenda of both the NSW Premier and the City of Sydney Council. The recently released Central Sydney Strategy suggests the adoption of new development controls which will limit residential and serviced apartment floor space in large developments to a maximum of 50 per cent to provide for a genuine mixed-use outcome and stem the loss of employment floor space.

The new model of mixed use development proposed in the strategy could lead to an increase in the feasibility and viability of PRS or coliving spaces within the City. Coliving, and a modern PRS structure, will permeate Sydney's CBDs and fringe locations, as quickly as coworking has risen from nonentity.

*Words by Paul Savitz, Director Research & Consulting*

# OUTLOOK

Despite achieving tremendous growth over the last few years, Sydney's coworking industry is still in its infancy, and there are significant opportunities ahead. Coworking spaces have evolved and transitioned from an "underground" movement located mostly in converted warehouses in the City Fringe to a fully mainstream industry taking on prime locations in the CBD. Despite some initial reluctance, property landlords and corporate tenants have now started to embrace the coworking concept.

By the end of 2017, there will be more coworking space in the CBD of Sydney than any other parts of Metropolitan Sydney. Much of this is attributed to the arrival of international players such as WeWork as well as the participation of institutional property operators. A number of major property owners have entered the coworking market directly such as GPT and BlackWall, whilst others are partnering up with major coworking operators (ie. Lendlease and WeWork).

Looking forward, the strong growth of the Fintech industry in Sydney and the establishment of a $23 million Incubator Support program by the Federal Government are expected to further boost industry growth over the coming years.

The ongoing infrastructure boom across Metropolitan Sydney will see more and more project space demand from construction and engineering firms over the coming years. In addition, rising rents and a decline of available stock in the Sydney CBD will entice many corporate tenants, who wish to remain in the CBD, to consider coworking as a viable option for their tenancy needs. The model not only works for small and medium enterprises but also major international corporations because of consistency of offerings and flexibility of lease terms.

Coworking spaces are also evolving greatly in response to the changing nature of their member bases and business environment. The next generation of coworking spaces will provide flexible offerings in addition to added-value concepts such as interactive meeting spaces, media rooms, relaxation zones and end-of-trip facilities.

> "The way people are working has shifted; the modern day worker wants a space that is not only flexible, creative and collaborative but also simple and affordable."
>
> Tom Fleming
> General Manager, Bay 9
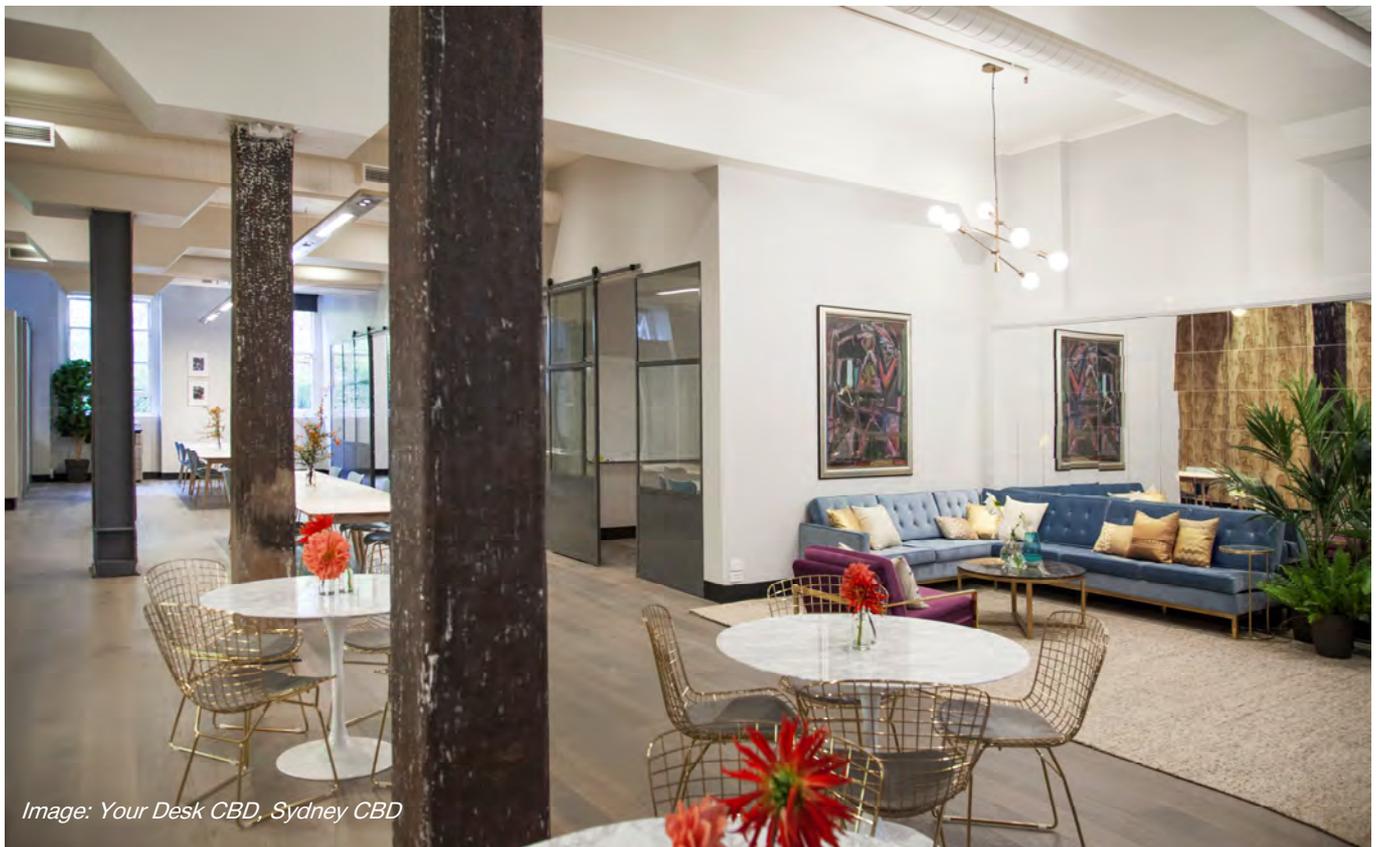


*Image: Your Desk CBD, Sydney CBD*

Coworking space definition:
For the purpose of this report, a coworking space is defined as a shared or collaborative workspace that connects with a coworking community.

Front Cover Image: Bay 9, the Bays on Middlemiss Street, Lavender Bay

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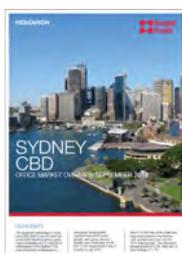
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