Briefing note

Workspace as a Service (WaaS) Trend or necessity?

June 2018

Photo by Shridhar Gupta on Unsplash

SUMMARY

■ The average share of WaaS take-up in Europe reached 7.5% in Q1 2018, up from 7.2% in 2017 and almost three times higher compared to 2016, corresponding to a total volume of 680,000 sq m.

■ The highest share was captured in Birmingham (24%), followed by Brussels (20.5%) and Dublin (20.2%), which also showed the highest rises compared to last year.

■ The largest market over the past five quarters was London (217,000 sq m), followed by Paris (126,000 sq m) and Berlin (81,000 sq m).

■ WeWork was the largest occupier since Q1 2017 with almost 295,000 sq m, followed by Regus/Spaces with about 155,000 sq m.

■ With flexibility high in occupier agenda we expect to see further expansion of the WaaS brands, especially in the markets where their share of activity is still low. Activity should stabilise in the most active markets, the share of flexible office take-up in London already dropped from 18% in 2018 to 5.6% in Q1 2018.

"The effect of 'on-demand' economy on the office sector, is bringing the expectation for higher flexibility, shorter leases and personalised services." Eri Mitsostergiou, Savills European Research

*21 cities in 10 countries

The rise of the gig economy

Over the past decade the global labour market has seen a new phenomenon: the rise of the independent professionals, or iPros as freelancers are often referred to. There are several reasons behind this trend. Firstly, in the aftermath of the financial crisis the loss of millions of jobs forced many people to independent work, as a primary or complementary source of income. However, following the entry of the millennials in the job market they have become a growing part of the labour force with different approaches to work that values highly flexibility, autonomy and work-life balance Additionally, technological evolution has contributed to the expansion of remote or independent working through efficient online marketplaces, where workers can easily connect and target customers.

McKinsey Global Institute (MGI 2016 survey) estimated that about 20-30% of the working age population engages in independent work, suggesting about 60-94 million workers across EU15. Although new ways of working through technology and digital platforms have enabled these workers to work practically form anywhere – including home at the largest part, their needs for networking, collaboration and personal interface have increased over time, stimulating the emergence and expansion of co-working spaces.

From collaboration to flexibility

Demands and behaviours of office occupiers are changing rapidly. The serviced offices concept as a temporary, short term solution to business needs has existed for years, with Regus (currently IWG) being the most recognisable brand in this field. Over the past three years the share of co-working space, has been accounting for an ever increasing share in occupier activity. As power has shifted from employers to employees and competition for talent is at its peak, it is vital for businesses to offer what workers want. Over this period the concept has evolved to workspace that offers experience, service and flexibility to the user, just as any other real estate product is expected to do. From now on, we will call this type of office space 'Workspace as a Service' or WaaS.

Increasingly larger businesses and corporate companies also use desks in flexible workspaces. We have seen some placing innovation and tech teams into co-working environments as they seek to encourage their staff to collaborate with other start-ups and become more innovative. Others move their entire businesses into a serviced office. Through flexible office space companies can be more agile and adaptable, while reducing some of their lease liabilities and the weight of real estate on their balance sheets.

Landlord or occupier?

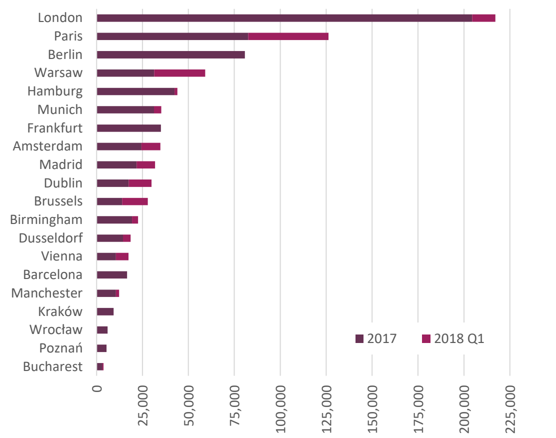
WeWork the fastest growing provider of WaaS globally, has become the most active operator in markets like London, Paris and Berlin by leasing and buying buildings to offer flexible office space. In 2017 their footprint in London doubled, making them the largest corporate occupier. Their success has generated the creation of similar companies in London and elsewhere in Europe.

This trend has been acknowledged by real estate players (landlords, developers) and investors alike, who want a slice of the pie. About a year ago large financial group SoftBank Group Corp invested in WeWork, while Blackstone bought The Office Group, a WaaS provider. At the time this report was published, the oldest global serviced office operator IWG (ex Regus) had received take-over proposals from three private equity groups: Lone Star, TDR Capital and Starwood.

Landlords are responding with a variety of strategies to this trend. In some cases they offer part of their space for rent on shorter leases, providing amenities and services in order to satisfy occupier demand, like British Land Co did by launching Storey, a WaaS brand. Others explore business deals with flexible space businesses or they simply lease space directly to businesses at more flexible terms.

GRAPH 1

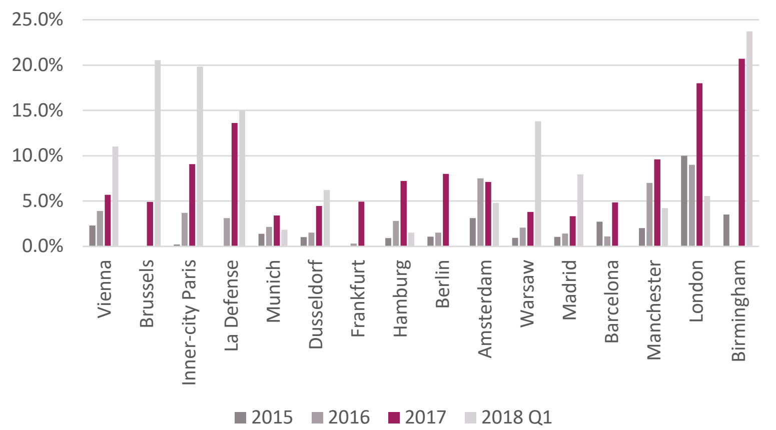
Take-up of flexible office space (sqm) 50% of take-up in three cities



Source: Savills

GRAPH 2

Share of flexible office space take-up (%) ranges from 2% to 24%



Source: Savills,

The share of WaaS take-up is rising

Last year the share of WaaS take-up reached 7.2%, across the 21 cities in the 10 countries that we monitor. This share was 2.8 times higher than in 2016 and 4.2 times higher than in 2015. The highest share was captured in Birmingham at 20.7%, followed by London at 18% and Paris-La Defense at 13.6%.

In the first quarter of 2018 Birmingham maintained the first place at 23.7%, but we recorded significant rises in Dublin, from 5.9% in 2017 to 20.2% and Brussels from 4.9% to 20.5%. The share of WaaS take-up dropped significantly in London to 5.6%, while remained quite high in Paris (15% La Defense and 19.8% Inner city). The overall average share increased slightly to 7.5%.

Since the first quarter of 2017, more than 820,000 sq m of office space was taken by WaaS providers in Europe. Of this, 26% is located in London, 15% in Paris, 10% in Berlin, 6% in Warsaw and 5% in Hamburg.

WeWork was the largest occupier with almost 295,000 sq m, followed by IWG (Regus/Spaces) with about 155,000 sq m. The average size of deal was in the region of 3,600 sq m with 42% of the deals in the 1-1,999 sq m size band, showing that the concept continues to service predominantly the iPros, start-ups and small businesses.

Nevertheless, there were 12 deals, out of a total of 224, which were over 10,000 sq m and were mainly closed by WeWork in London, Paris, Berlin and Frankfurt. It is estimated that 15-20% of WeWork now comprise larger, traditional companies. Overall, 8% of the deals were in the 8,000-10,000 sq m size band.

94% of the deals (in volume) were letting deals and only 6% were owner-occupier deals. Over the past five quarters this corresponded to five major deals: WeWork acquired 39,000 sq m of office space in London City and Tribes acquired 9,400 sq m in Den Hague in the Netherlands.

The real vacancy issue

With the share of WaaS take-up jumping from less than 2% in 2015 to over 7% in Q1 2018 and to up to one fifth of the total activity in some markets, the issue of the real vacancy emerges. In most markets the space taken by WaaS providers is excluded from the availability and the vacancy rates may appear artificially low providing a slightly misleading picture of the demand and supply situation in some markets.

Moreover, in order to understand the performance of this emerging office type it will be necessary, as the sector matures, to introduce measures of performance, which may be similar to the hotels sector, such as average occupancy rates and revenues per sq/m or desk.

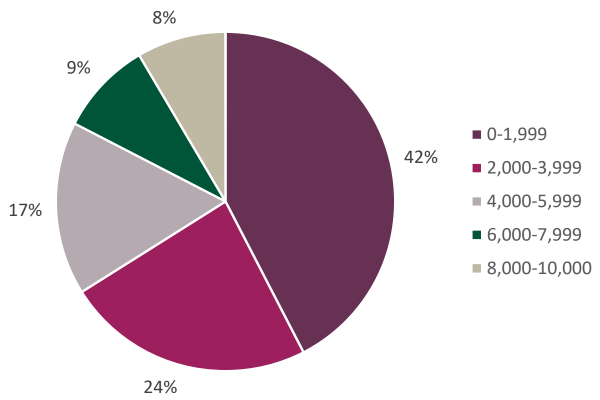
OUTLOOK

Share of WaaS will rise

- In a fast changing and uncertain world, flexibility is paramount for occupiers. Looking forward, we expect to see further expansion of the WaaS brands, especially in the markets where the share of their activity is still low and where there is less diversity in the number of providers compared to London, Paris or Berlin. Besides, we should see an increasing number of landlords offering parts of their portfolios on flexible terms with additional amenities and facilities.
- Future demand for flexible office space will continue to come from the gig economy, which has become an established way of working. In addition, small enterprises and dynamic start-ups will also make a large part of users.
- New demand can also come from more traditional companies and larger corporates with more than 1,000 employees. Flexible and shorter leases are appealing to these companies, especially when expanding. This is a segment that flexible office space providers will seek to tap into in order to ensure sizeable occupancy and income from their assets. In order to achieve this they will be providing a mix of collaborative and individual working areas to allow for different working styles and needs.
- Finally, we believe that the dominant brands will increasingly choose to acquire their space rather than let it in order to have more flexibility in managing their liabilities. We may also see more management agreements between WaaS providers and landlords, similar to the deals we see in the hotels sector.

GRAPH 3

Flexible office space take-up by size (Europe) Smaller office sizes still dominate the market



Source: Savills

> "The concept of WaaS is growing on the back of changing working styles and occupier demand for flexibility"
> Eri Mitsostergiou, European Research

Savills Research contacts

Please contact us for further information

Eri Mitsostergiou
European Research
+40 (0) 728205626
emitso@savills.com

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