

ROOM TO GROW: CO-WORKING SPACES AND SMES

Are co-working spaces the next step for SMEs keen on cutting costs while fostering collaborative work cultures?

By Aliff Yusri



As offices in Malaysia face a veritable onslaught of supply, with real estate consultancy Knight Frank Malaysia estimating a total of 100.1 million sq ft of purpose-built office space in Kuala Lumpur and Selangor alone as of 2H 2017 and 16 million sq ft incoming this year, co-working spaces are helping to ease the pressure on the segment, capitalising on the appeal of flexible working solutions to small and medium enterprises (SMEs) as the gig economy becomes more widespread.

Now a frequent sight in Klang Valley, co-working spaces were popularised by WeWork, an American firm established in 2010 to provide shared workspaces for the technology start-up community as well as services for SMEs, according to Colony Space Asia Executive Director and Co-Founder Timothy Tiah. As of July 2017, WeWork was valued at US\$20bil.

Domestic entrepreneurs, recognising the opportunity for such ventures on local shores, have scrambled to duplicate WeWork's success closer to home. Tiah estimates that Malaysia was home to no fewer than 36 co-working operators in Kuala Lumpur alone in 2017, with this number likely increasing to up to 70 firms this year.

Millennials Driving Demand

These facilities run the gamut from Colony's luxury serviced offices, with an emphasis on amenities and services, to Nestspace's café-inspired approach, as players such as Common Ground Works, Nomad Malaysia and Spacebar test the waters with diverse strategies in striving to capture a slice of the emerging collaborative working spaces market.



Timothy Tiah

"Co-working space will continue to grow across Malaysia in the coming years as the concept is cost-efficient. It allows tenants to have more flexibility, as people who opt for serviced space need not get into the hassle of hiring staff or buying furniture or paying other utility bills. When they rent serviced office space, all that comes in a single bill," says Knight Frank Malaysia Executive Director Teh Young Khean.

"We expect co-working spaces to be in demand among start-ups and SMEs. We also do not view co-working spaces as a fad; they will be here to stay. Millennials are becoming prevalent in today's workforce, and their presence has redefined social norms in business interactions. Co-working spaces will likely suit this generation of workers, who demand more flexibility at work."

Co-working spaces can also reduce the initial capital outlay incurred in setting up an office. According to Knight Frank Research, other factors contributing to the growth of collaborative spaces in Malaysia include government-led initiatives such as the launch of the Malaysia Digital Hub and Malaysia Tech Entrepreneur Programme, driving demand for such spaces across industries and professions, particularly tech start-ups and SMEs.

As of 2H 2017, flexible working solutions accounted for some 500,000 sq ft of occupied space across Malaysia, or approximately 0.5% of total office stock. While lower than the Southeast Asia average of 2%, analysts project that over the next 10 years, this figure will be closer to 30% of office floor space across the region, representing a market worth US\$5bil annually, according to Common Ground Works Sdn Bhd Co-founder Erman Akinci.

However, one curiosity of the collaborative workspace



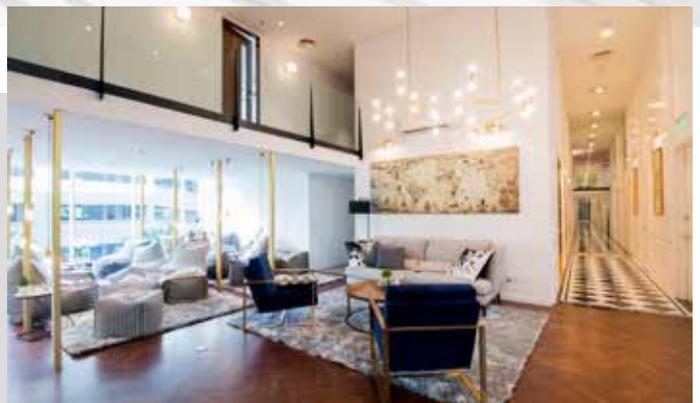
IN A CLASS OF ITS OWN

The brainchild of blog advertising network Nuffnang founder Timothy Tiah, Colony Space Asia differs from other co-working operators in its upmarket outlook, as well as its luxury amenities and services. Drawing its inspiration from the innovative working environments found in Silicon Valley, Colony launched its first 18,000-sq ft centre on Jalan Kia Peng, Kuala Lumpur in July 2017, with a second centre opening its doors in July this year at KL Eco City.

Colony's upscale approach to the segment is apparent in the design of its centres. For example, Colony KL Eco City features a colonial theme, incorporating European and Asian design elements along with the brand's signature monochromatic motifs. Complementing its chic interiors accented in pink are a suite of facilities and services which read like a dream wish list for the modern office worker.

These include a nap room for relaxation, kids' play room and nursing room for working parents, gymnasiums and even massage rooms. Such appointments are in line with Colony's goal of targeting the higher end of the market, as corporate players and affluent entrepreneurs would need an unquestionable value proposition to forego leases in conventional office spaces.

"We focus more on hospitality, rather than community or the start-up space. Start-ups and freelancers make up only up to 2% of employment in Malaysia. We'd like to target that remaining 98%, so we're positioning ourselves to be seen as the



Ritz-Carlton of workspaces," says Colony Space Asia Executive Director and Co-Founder Timothy Tiah.

"These players can actually end up saving on costs with us, because meeting space and so on can be shared at the common areas, and they don't need to manage services such as reception, Wi-Fi, cleaning and so on, including services they wouldn't ordinarily source. Of course, they save on the costs of renovating the space as well."

Spanning 20,000 sq ft over five floors, monthly rental at the RM4.6mil KL Eco City centre begins from RM386 for a hotdesk seat, with private serviced offices starting from RM1,888. Time-based passes are also available, priced from RM338 for 100 hours. Rental is inclusive of utilities, high-speed Internet and office cleaning services.

Following the success of its Kuala Lumpur and KL Eco City centres, Colony has reported plans to launch a third centre at KL Central. Representing an investment of RM4.5mil, the facility is planned for the Q Sentral building, with private offices and desks for more than 200 guests.

segment in Malaysia is that it is primarily a Klang Valley phenomenon, with the real estate consultancy noting that such spaces are still in their infancy in other metropolitan areas such as Penang and Johor. Knight Frank Malaysia Executive Director Ricky Lee attributes this to an ample supply of shop-offices and smaller office buildings, with comparatively lower rental rates.

A Tale of Two Target Markets

“We do see co-working spaces eventually taking off in other states, some more so than others. Some co-working spaces are catered more towards corporations, and will likely stay within downtown areas, particularly in Kuala Lumpur. Others target the mass market and suburban areas and will expand to those areas, including second-tier cities and places which are more remote,” says WORQ CEO and Co-founder Stephanie Ping.

She notes that collaborative spaces can be thought of as “plug-and-play” solutions for both SMEs and large corporations, though these two client types have contrasting requirement profiles. In general, SMEs are amenable to a wide range of co-working arrangements, with added elements of service and amenities as a bonus for their convenience.

In contrast, large corporations will only tend to shift operations to collaborative spaces if they see definitive value in the work environment for themselves or for their teams, according to Colony’s Tiah, as attracting and retaining talent is more of a consideration for such players.

As co-working facilities grow in popularity and oversupply issues continue to flood the office segment with unoccupied space, particularly in Klang Valley, does this represent a fundamental paradigm shift in the preferences of the workforce towards flexible spaces, at the expense of conventional office facilities?

“We see co-working spaces as complementary to office spaces. We work with landlords to



BUILDING A COMMON GROUND

One of the most established co-working operators in the country, Common Ground Works Sdn Bhd has expanded aggressively since the launch of its first venue in Wisma UOA Damansara II, Bukit Damansara in March 2017, with its portfolio now comprising seven venues in strategic locations throughout Klang Valley.

“Aside from the millennial influence, I think what’s driving the uptake of co-working spaces is shifts in the way

organisations view their accounting practices and financial structures. People are also looking for a much more enhanced experience in the workplace,” says Common Ground Works Co-founder Erman Akinci.

“Co-working operators tend to be cookie-cutter in approach, almost like a franchise model. They go into a country and import their look, feel, style and the way they run their communities. But because we started in Malaysia, we have a different set of USPs which really encapsulate the fact that we are a homegrown brand,” adds Common Ground Works Co-founder Juhn Teo.

With regard to value-adds, the Common Ground team has invested significant effort over the past six months into building a hyper-localised value proposition. This comprises an extensive pool of local business partners, including accounting, marketing, HR, legal, tax and design specialists, the depth and breadth of which are enhanced by the operator’s agnostic approach to industry collaboration, with no prospective partners turned away.

This pool is positioned as a key resource for clients such as SMEs and start-ups to leverage on in growing their businesses. In addition, Common Ground actively fosters community interactions between its members through opportunities such as employment notices, job postings and more, which it has developed into a digital bulletin board of sorts, available through the Common Ground app.

Looking to the future, Common Ground will maintain its strong forward momentum with plans for the opening of five more venues across Klang Valley and Penang by year-end, including locations in Petaling Jaya, Mutiara Damansara and Mid Valley. Three venues currently under renovation in Manila, the Philippines, are slated to open this year as well.



Juhn Teo (left) and Erman Akinci

SMES AND START-UPS IN SYNERGY

Venturing into collaborative spaces in March 2017 with its first 15,000-sq ft location in Glo Damansara Shopping Mall in Taman Tun Dr Ismail, WORQ is positioned as a hyper-localised community geared towards enhancing the productivity of entrepreneurs, freelancers and enterprises.

Following on the success of its Glo Damansara location, which saw full occupancy within two months with more than 70 teams housed, the company will be launching its second location, comprising 22,000 sq ft in UOA Business Park near Subang Jaya on 5 October this year.

"WORQ prides itself as the best community work space. This means customers who join us get to leverage on a like-minded, helpful, and close-knit community to supercharge their work and productivity," says WORQ CEO and Co-founder Stephanie Ping.

"Furthermore, WORQ is hyper-localised. This means that the help and information you can get from joining WORQ is not something you can Google, but rather something local, that is your daily support system. In many ways this is priceless, almost like an extended family, and this is something you can't get by just going online or being in an office space."

She likens WORQ to other start-ups such as Uber, which drive demand for products and services heretofore unseen. In Uber's case, this was ride-hailing; in WORQ's case, it would be the support ecosystem surrounding their core business of collaborative spaces.



"WORQ is not just a co-working space or a real estate company. WORQ's true goal is to create products that never were; that is, to disrupt traditional industries. It has been expensive and inconvenient for customers to use real estate products. For thousands of dollars in rent, or millions of dollars in real estate purchases, consumers were not even getting basic things like flooring or lighting," she says.

"In comes WORQ, where not only do we provide everything you need except your laptop, we also provide clients with the soft element of a hyper-localised community. We take our customers' success into account. However, WORQ will not just stop there. This is just the first step in our quest."

Ping is bullish on growth prospects in Malaysia, given the country's primarily suburban population and WORQ's focus on the mass market, as opposed to corporate players based in metropolitan zones. Moving forward, she shares that the operator has structured its business model with an eye to expansion in other states as well as overseas.

bring vibrancy into their office buildings, and when our customer base grows too big for our space, they move into the larger units offered by our landlords. We have had building owners tell us that because we create a brand new market of space for SMEs and freelancers, who were never their tenants previously, we are not their competitors, and therefore they want to work with us," says Ping.

Taking the view that co-working operators differentiate themselves by the lifestyle elements they package with their shared spaces, Common Ground's Akinci attributes the proliferation of players in the collaborative workspace segment to diversity in terms of lifestyle preferences among Malaysian working professionals.

However, the adage "too much of a good thing" may apply here, with rapid growth in the segment echoing the proliferation of educational institutions in Malaysia just a few years ago, leading to an extended moratorium on the establishment of new institutions of higher learning since 2013.

"We do foresee a huge influx of players in the next two years. Beyond that, I imagine that 80% to 90% of those will be gone in the next four. It's the nature of how businesses develop now. You enter the market because the initial barriers to entry are low, but as time goes on, the leaders in the space set benchmarks that newer entries just can't compete with," he concludes. ⁵¹