

Co-working Spaces in Commercial Real Estate - Identifying success factors and end-user motivations A study from the space operator and end-user perspective in Delhi NCR

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ABSTRACT: *The primary purpose of this paper is to assess the business viability of co-working spaces in Delhi NCR (National Capital Region, India is the designation for the conurbation or metropolitan area which encompasses the entire National Capital Territory of Delhi, which includes New Delhi, as well as urban areas surrounding it), an upcoming co-working hub in India. With the advent of the start-up revolution and international companies establishing their business operations in India, co-working spaces have emerged as a lucrative alternative to conventional office spaces. As this new trend is fervently picking-up in the Indian commercial real estate market, the study aims to identify the key differentiating factors for a profitable and sustainable co-working space in the middle of growing competition from the space operator (service provider) and end-user perspective. The paper further explores the end user motivations for using this space over a traditional office space and gives an overview of the various revenue generating streams contributing towards overall profitability in a co-working space in Delhi NCR region.*

KEY WORD: *Co-working spaces, commercial real estate, space operator, end user, start-ups, entrepreneurship*

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I. INTRODUCTION AND LITERATURE REVIEW

With the growth of entrepreneurship ecosystem worldwide, co-working office space, a relatively new concept in India has become an upward trend in the commercial real estate segment boosting huge demand for such office spaces in major metropolitan cities in India. Co-working space is a flexible, ready to use, plug and play office sharing arrangement where people from different professional backgrounds, interests and companies work in the same place. According to Julian et al., 2016, (Co-working: A Transdisciplinary Overview), Spinuzzi, 2012; Bilandzic, 2013a, 2013b, 2013c; Capdevila, 2014, 2015; Fuzi, Clifton & Loudon, 2015, Co-working is defined as:“(.) a complex social phenomenon. Co-working spaces are open-plan offices that mobile, independent knowledge workers share as places of work. But co-working is usually defined as more than just an access to space and facilities, in fact it is the elusive quality of this ‘working-alone together’ behaviour that is a source of growing attraction for participants and intrigue for academics.”

The co-working concept is not new as it existed hundreds of years back when writers and artists used to establish communities to practice their skills and network. As highlighted in another paper by Julian Waters Lynch, 2016 and Jason Potts, 2016, (The social economy of co-working spaces: A focal point), the term ‘co-working’ in its existing sense came into limelight in 2005 in San Francisco when computer programmer and open-source enthusiast Brad Neuberg said:“I decided to create a new kind of space to support the community and structure that I hungered for and gave it a new name: co-working” (Neuberg, 2014). He leased a small space to work from and published an open invitation on his blog for others to join him: “In co-working, independent writers, programmers, and creators come together in community a few days a week. Co-working provides the "office of a traditional corporate job, but in a very unique way” (Neuberg 2005).

After some trials and recapitulations, these innovative co-workers established a set of ‘co-working values’: ‘collaboration, openness, community, accessibility & sustainability’ (Citizen Space 2007; Hillman 2011; Coworking.org 2012).

Published by Confederation of Indian Industries (CII), A Snapshot of India’s Start-up Ecosystem – A report based on Start-up Conclave 2015, Co-working spaces are defined as:“shared offices that typically have open space and offer desk space as well as other facilities such as administrative help or couriers or secretarial service”.

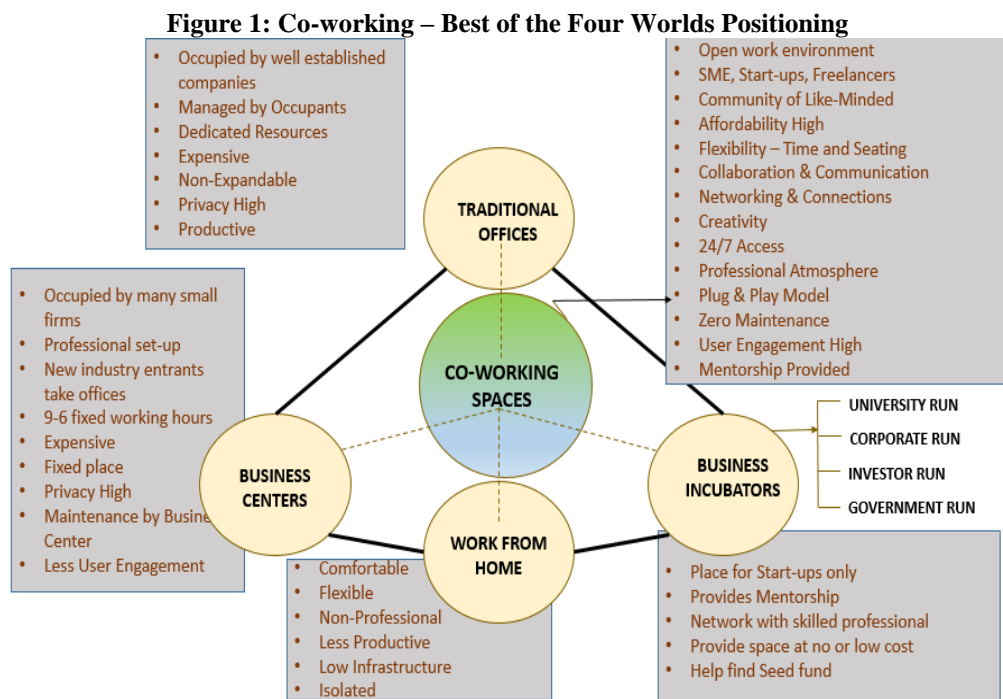
Co-working spaces are said to “combine the best parts of an office environment- community, collaboration and access to the right tools - with the benefits of working at home or working for yourself - convenience, flexibility, autonomy.’ (Sundsted et al 2009:8). Co-working spaces are thus said to “provide hip, comfortable, professional work spaces...along with a professional collaborative community of people who are living, breathing, and succeeding in this new economy” (Coonerty& Neuner, 2013).

The rise of collaborative community workspaces is part of a broader socio-economic system shift, the so-called sharing economy (Nick Clifton, Tom Crick and Anita FuziT, 2016). The term `sharing economy` was coined in 2008 by Lawrence Lessing at Harvard University; it emerged as a new paradigm of consumption that prevents excessive consumption based on collaborative consumption and shares, exchanges, and lends goods for resource and cost saving, not owning them (Botsman, 2010). The most recent workplace concept of co-working picked up as co-sharing office spaces in various parts of the world.

According to a report by Colliers International published on March 20, 2017, it is estimated that more than 1.2 million sq. ft. were leased by co-working operators in India in 2016, which accounted for nearly 3% of the overall leasing volume. Although it represents only a small share of the total leasing demand, co-working operators are planning to lease 8 to 9 million sq. ft. by 2020. As per the recent report by CBRE published in 2019, flexible working space saw a 277% jump in leasing to nearly 3 million sq. ft in the first quarter of calendar 2019. The same report also confirms that Bangalore and the Delhi-National Capital Region (NCR) region are the most preferred markets for co-working space operators in India.

Availability of adequate infrastructure, technology support and abundant opportunities for start-ups will further increase the demand for co-working spaces in metropolitan cities like Bengaluru, Mumbai, and Delhi NCR in the coming years.

According to the latest report published by HDFC Realty, Indian commercial real estate space has the presence of around 350 to 400 co-working spaces, managed by around 200 space operators and the numbers are rising each day. One of the reasons for the growing popularity of co-working spaces is that interestingly, as shown in Figure 1 below, co-working space as a concept has turned out to be the best positioned solution in the office space segment with the benefits of the four worlds, in terms of offering networking environment of a Business Incubator, flexibility and comfort of Work from home, less expensive arrangement than a Business Centre and more expandable option than a traditional office space.



Source: Self-created

With so many co-working spaces being set up in India, the big question arises: Are they making money? Are these spaces financially viable given the intense competition? What's more significant now is how early these spaces are reaching break-even given the co-working boom in India?

1.1 Research Objectives

The objective of the research is to identify the success factors for a profitable co-working space from the space operator (service provider) perspective and to identify end-user motivations for occupying such spaces vis- vis traditional office space.

1.2 Research Methodology

The paper first outlines theoretical concepts of co-working spaces through an exploratory study. Then, a survey was administered through instruments like face to face interactions, telephonic interviews and web survey questionnaire targeted towards 27 space operators and 50 end users from Delhi, Gurgaon and Noida. Break-up of the respondents interviewed is given in Table 1 below.

Table 1: Break-up of Respondents

City	Co-working Space Operators	End Users
Delhi	12	20
Gurgaon	10	15
Noida	5	15

Total Space Operators Interviewed - 27

Total Users Interviewed - 50

The following aspects were explored during the co-working survey conducted in Delhi NCR:

- How co-working spaces earn their revenues?
- What percentage of revenues do they earn from different services offered?
- What is the break-up of various costs incurred in running a co-working space?
- When do co-working spaces break-even?
- What are the different membership models offered?
- What are the operational challenges faced by the various co-working space operators?
- How space operators are evolving into incubation and mentoring platforms from pure rent seekers?
- What are the key success factors for ensuring long-term profitability?

The end users are questioned on the importance given to various features while choosing a specific co-working office space over conventional office spaces and other nearby co-working spaces in the same location. The primary data collected through various instruments was then supported with secondary research from published sources like articles, journals, publications and white papers.

The data is then analysed using various data analysis tools and techniques. Key trends, findings, profitability elements and success factors for a co-working office space in the identified geography are then highlighted.

1.3 Research Limitations

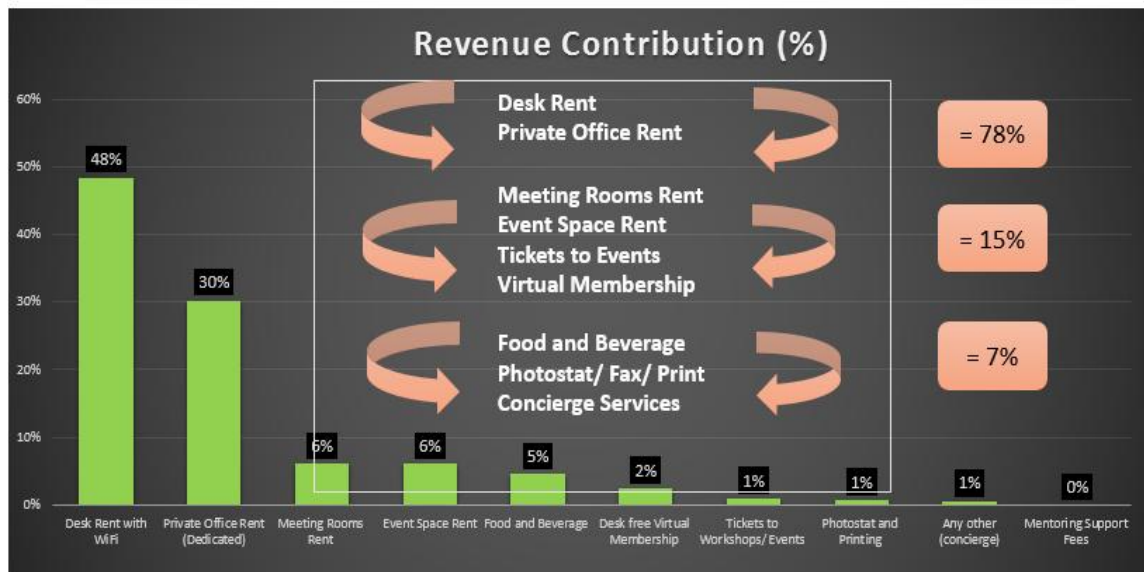
The present study provides a starting-point for further research as co-working space segment enters a new growth phase in India and the demand climbs up manifolds in smaller Indian cities. This paper could be helpful to initiate research on topics like impact of co-working on user productivity, creativity and innovation.

Practical Implications- This paper can be used as a reference document while making investment related decisions in co-working office space segment within commercial real estate market for Delhi NCR geography besides its benefits to the academic community.

1.4 Data Analysis and Interpretations

Co-working Space Revenue Streams: It was observed that majority of the revenue comes from renting the desk space (flexible or private) in Delhi NCR co-working spaces. Efforts are also diverted to generate revenues from sources like booking meeting rooms, renting out space on weekends for events, selling tickets to events held on weekends or during evenings (currently free or at very nominal prices). A new concept called virtual membership is also picking up in co-working spaces as an additional source of revenue. For example, Innov8, a very popular co-working space in central Delhi gives access to offline and online communities and events with a virtual membership.

Figure 2: Co-working Space Revenue Streams – Delhi NCR

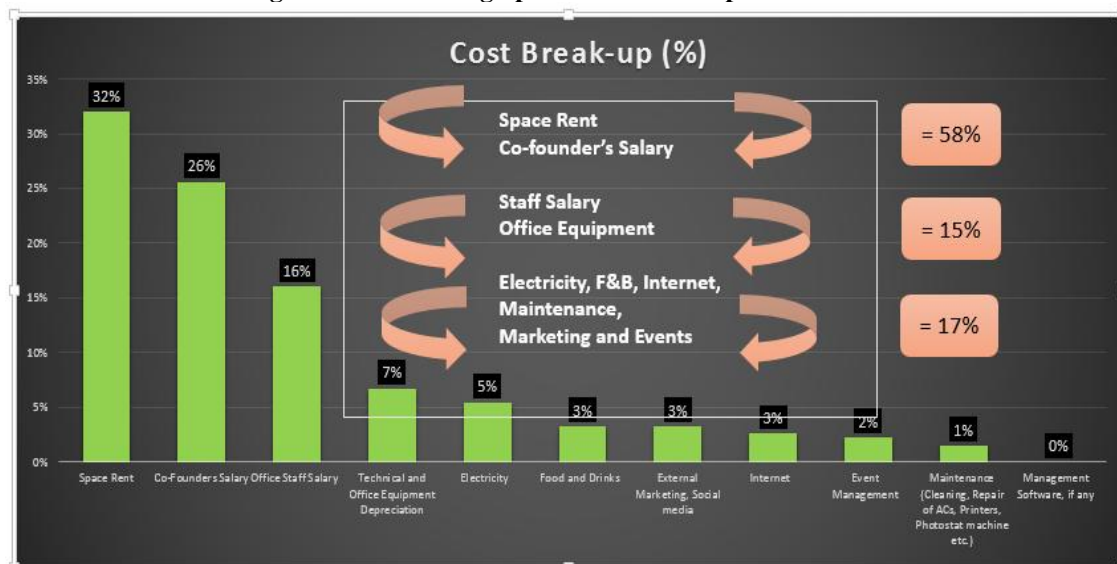


Source: Based on Primary Research from Delhi NCR Co-working Space Operators

Other sources of revenue in Delhi NCR Co-working spaces, though currently less than 10%, are revenue earned through shared resources like Printer/ Fax/ Photostat, recreation zones providing services like food and beverages, gaming and through concierge services like travel desk and legal consulting. Delhi NCR co-working spaces are competing with the best in class in terms of providing value-add services like nap rooms, min-golf, gaming zones and right ambiance and networking support for meeting clients and investors.

Co-working Space Cost Break-up: As per the study conducted, space rent and co-founder’s salary forms major cost head for running any co-working space in Delhi, unless space is owned by the co-founders or they are operating on the revenue sharing arrangement with the landlord. Other major cost heads for most of the co-working spaces are operational costs like employee salary, office equipment depreciation, electricity charges and internet expenses.

Figure 3: Co-working Space Cost Break-up - Delhi NCR

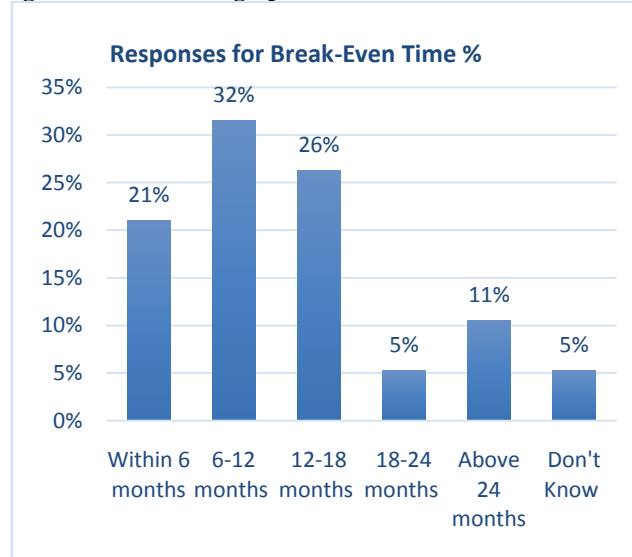


Source: Based on Primary Research from Delhi NCR Co-working Space Operators

A Minimal amount is currently being spent by Delhi NCR co-working space operators on event management and maintenance. However, space operators are realizing that to capture new customers and engage the existing ones, a substantial budget should be allocated for marketing, event promotion, and maintenance to ensure superior user experience.

Co-working Space Breakeven Time: According to the survey results, 21% of the Co-working spaces interviewed in Delhi NCR have claimed to reach break-even point within 6 months of operations. These spaces were observed to be owned by the co-founders, hence rent, significant cost head was removed which contribute to early profitability. The study says that majority of the co-working spaces become profitable within one year. Good location, accessibility and right pricing of the space contribute to maximum occupancy and hence early break-even.

Figure 4: Co-working Space Breakeven Time - Delhi NCR

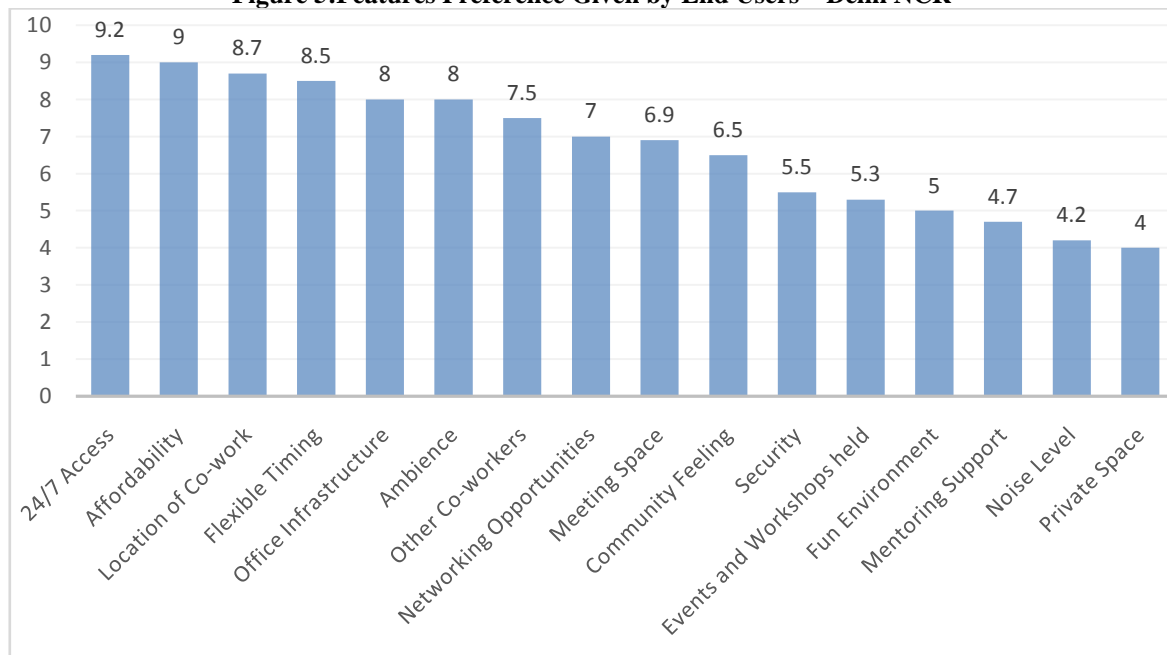


Source: Based on Primary Research from Delhi NCR Co-working Space Operators

Also, 11% of the spaces which took 2 years to break-even are either disconnected from public transport or are highly priced and or could not deliver superior user experience

Features Preference Given by End Users: India being a price sensitive market, affordability along with accessibility is given the highest rating in terms of user preferences. People using co-working spaces do not seek too much privacy, however, a location of the co-work is one of the major decision-making criteria along with flexible timing and good office infrastructure while choosing a co-work.

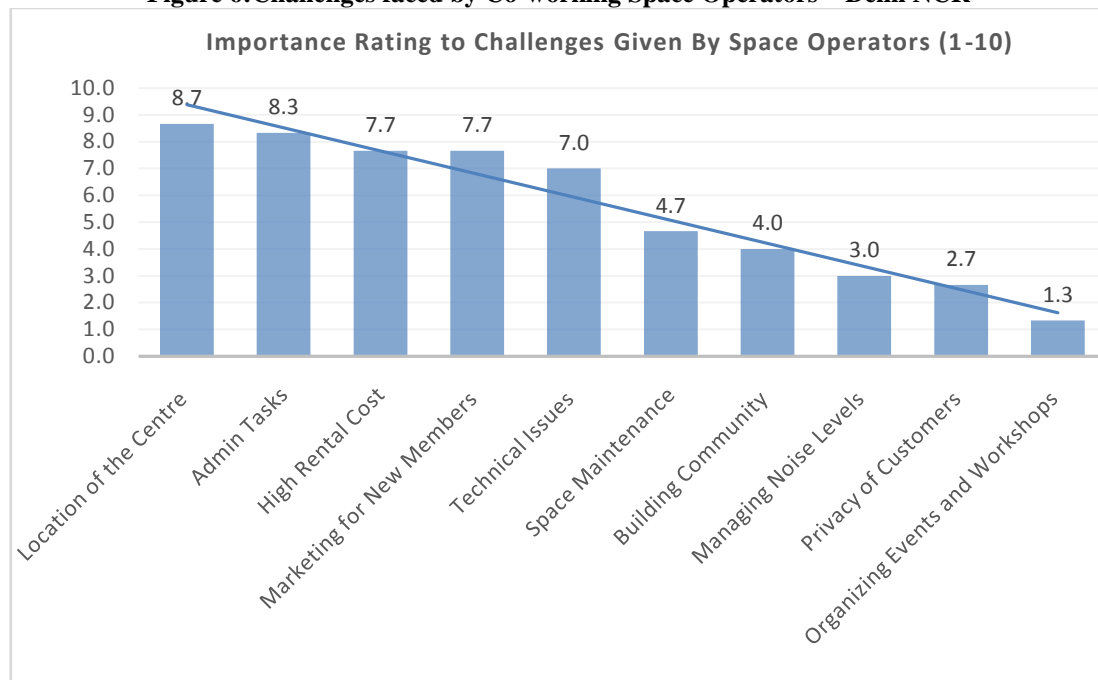
Figure 5: Features Preference Given by End Users – Delhi NCR



Source: Based on Primary Research from Delhi NCR Co-working Space Operators

Major challenge faced by co-working operators in Delhi NCR is to identify the right location which has good footfall of working people and is well connected to public transport.

Figure 6: Challenges faced by Co-working Space Operators – Delhi NCR



1.5 Findings

The paper has identified the following key differentiating success factors for long-term profitability of Co-working Spaces in Delhi NCR:

Right Pricing: Co-working spaces are priced anywhere between 5,000 INR per seat month to 45,000 INR per seat per month suiting all kind of user profiles depending on location, services provided and user experience. Indian market being price sensitive, expects the price to be 30-40% lower than traditional office space. The ideal or sustainable pricing recommended being between 8000 INR – 15,000 INR per seat per month

Right Location: User Accessibility is super critical in India with increasing logistics problem as people don't want to travel far for work. Also, it has been observed that every Co-work has a personality based on the location and user profile. For example, Hauz Khas area in Delhi is the hub for designers and creative people. Gurgaon in the NCR region is the hub for e-commerce and IT-related start-ups.

Right User Experience: User experience and user engagement at the emotional level through community building activities like celebrating festivals and birthdays create long-term value and ensure that users stay for longer periods.

Right Network: The road to profitability begins with the network the founder or owner of the space has in the ecosystem and the understanding of the end user dynamics. And only a handful of them has got it correctly.

Right Financial Arrangement with the Landlord: Leasing out property or running it on revenue sharing basis with the landlord is another factor which determines success or failure until space's founder or promoter owns the property.

1.6 Recommendations for Co-working Space Operators

The paper has identified the following recommendations for co-working space operators to make an impact in the commercial real estate market and win customers for long-term.

1. **Space Operators to offer more than just space:** Intangible benefits like flexibility, communal interactions, invitations to events, access to ample networking opportunities and additional services like mentoring and incubation support create long-term value and customer retention for a co-working space.
2. **Basic Services to be Packaged differently with various membership plans:** Basic services like WIFI, IT support, fax machine, projector, printer, international calling, scans, conference rooms, break-out areas, recreation rooms, water, tea, coffee, and snacks etc. to be packaged as a combined plan with various membership plans like Part-time, Full-time, Weekdays, Flexi plans to increase the revenue streams.

3. **Major Shake-up awaited in Indian Co-working Space:**Co-working spaces are mushrooming all over India without understanding the user dynamics. Industry is due for a major shake –up, where consolidation will take place very soon and the ones unable to leave an impact or differentiate will be forced to shut-down.
4. **Focus on Building Efficient win-win models:** Emphasis should be on creating a long term economically viable and efficient model for both the users and the landlord. The co-working space users should get superior experience at affordable prices and the landlord should aim for better lease arrangement than the traditional tenants.
5. **Co-working is Blue ocean strategy for landlords:** The property which lies lying vacant for more than one year leads to losses. Landlords could easily convert undesirable/ non-performing/ underutilized space to a co-working space and share revenues with the space operator. Also, a cost of traditional tenant acquisition is high as around 8% of rent goes in agent commission. Co-working is proving to be a blue ocean strategy for landlords to gain a competitive advantage over peers as it could even help to attract and retain quality tenants.
6. **Hot Desking(flexible seating plan) is win-win for both users and space operators:** Through flexible membership plans, space operators can sell more memberships than what the actual maximum physical capacity allows in the context of a traditional tenancy. This generates higher revenue per floor area as compared to dedicated office desks.

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