

# Flexible Office Space Bahrain



## Key Drivers



Young and educated population



Strong entrepreneurial culture



Progressive and supportive government policies



Relatively low cost of operations compared to traditional office spaces



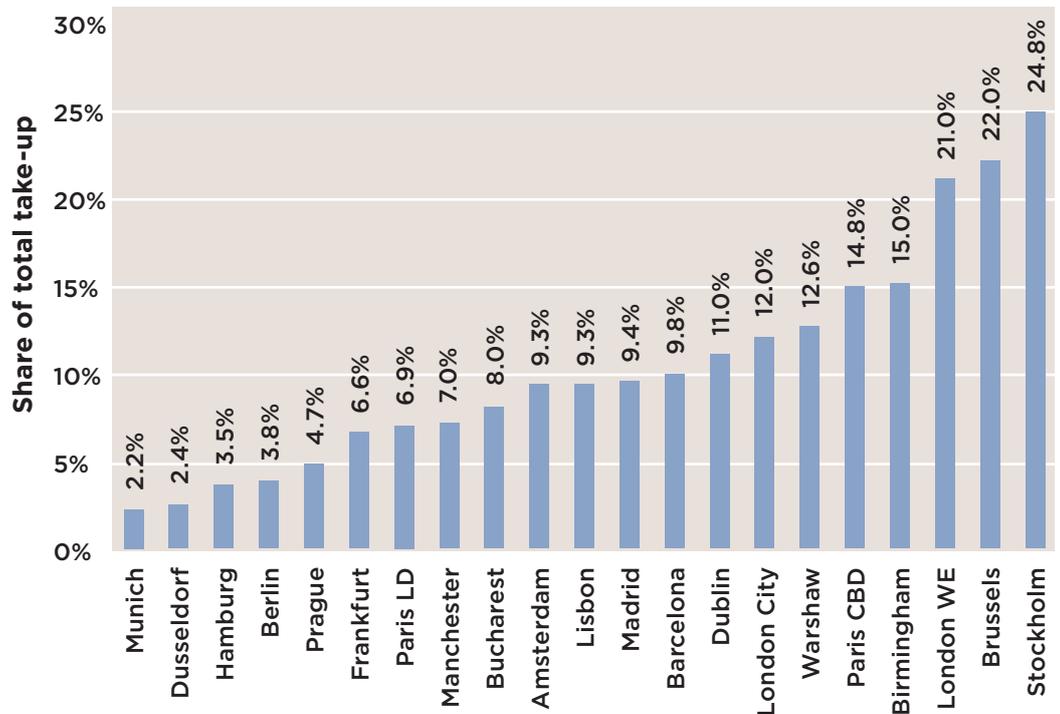
More satisfied employees when compared to the conventional office worker

# The Rise of Flexible Office Space

The concept of flexible spaces has been gaining momentum across major cities in the world. What started off as an alternative and relatively inexpensive office space option in the United States and gained popularity after the Global Financial Crisis, is now a disruptor of the office real estate landscape. Across established and advanced office markets around the world, it has redefined the concept of office space to now encompass and imply a 'service offering'. Its popularity is also no longer restricted to start-ups and entrepreneurs as it now includes multinationals and small-and-medium enterprises (SMEs) as its tenants. However, even though it has achieved significant growth in the last few years, flexible spaces occupy a

relatively smaller share of the completed office stock across established markets. According to Savills, estimates, in London - which is the biggest co-working market in the world - co-working spaces account for 7.6% of total office stock in Central London at the end of 2018. However, this dynamic may soon change as established players such as WeWork and IWG Group proliferate across existing and new sub-markets along with domestic start-ups that are trying to capitalise on this growing sector.

## Share of Flexible Space Take-up in 2018 was close to 10% of the total demand



<sup>1</sup>In terms of total area occupied

Source Savills Research

# Why Flexible Office Space can work in Bahrain

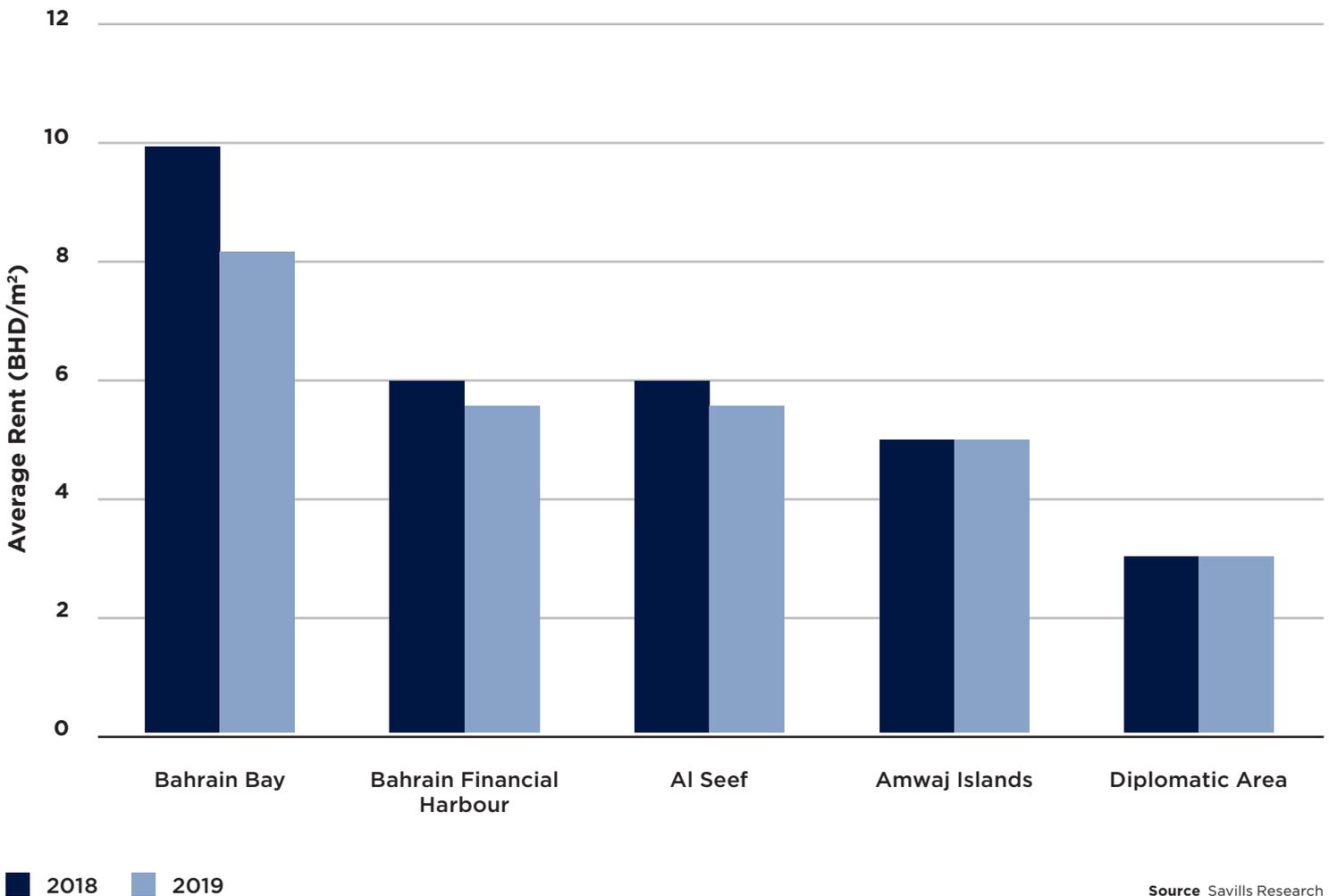
Flexible office spaces including co-working are still at a nascent stage in the region. The current flexible office space landscape is largely dominated by domestic players or niche operators. Certain key global brands are yet to enter the market and others have not introduced their full-service offerings. Occupiers on the other hand are contemplating regulatory and other implications

of flexible spaces on their local operations. Bleak economic outlook due to low oil price and global economic slowdown has further dampened demand for real estate.

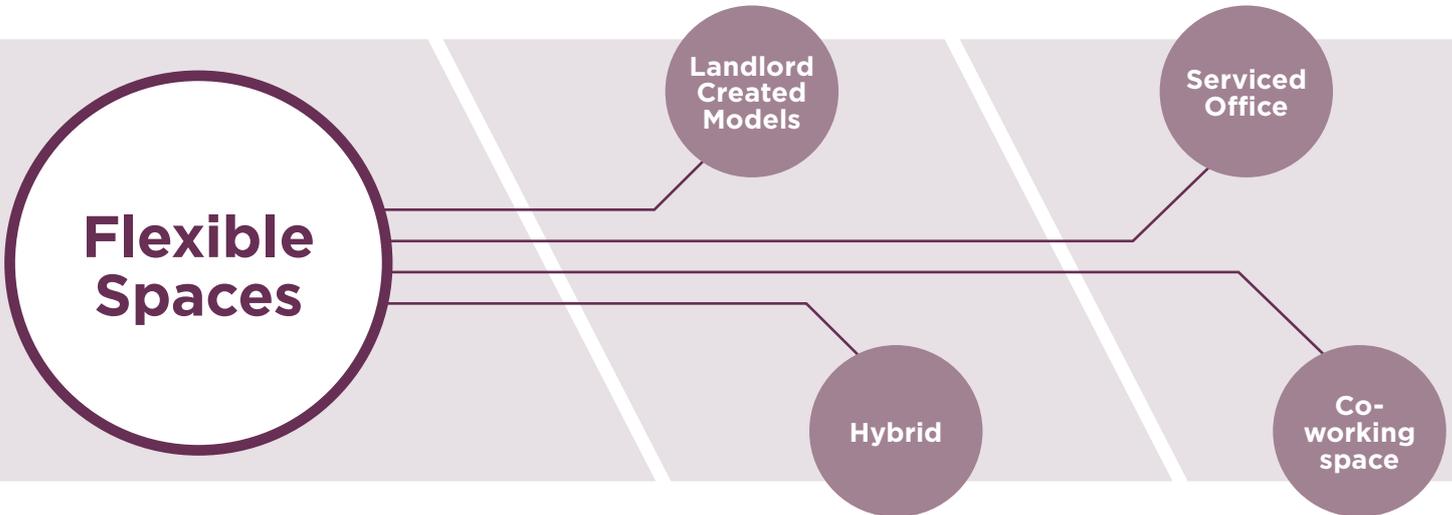
The impact of economic slowdown is well reflected in the case of Bahrain's real estate. Rental decline was observed in the key office markets such as

Bahrain Financial Harbour and Seef where the average rents dropped by 8% y-o-y. However, the rate of rental correction has slowed since the start of this year and few micro-markets such as Diplomatic Area have managed to maintain stable office rents.

## Grade A Office Rents



Source Savills Research



The country's office market activity has remained largely subdued over the past few years. A sustained supply addition and less active occupier demand has resulted in a tenant's market for the past few years. This has prompted some existing landlords and developers to offer generous incentives to retain and attract existing and new tenants respectively. Such incentives include but are not limited to extra grace period, free parking spaces lower-priced parking spaces, provision of smaller fitted-office suites, lease flexibility and all-inclusive rates, among others. For instance, Bahrain Financial Harbour is offering ready-made packages for fit-outs. Even though, these incentives extend to the efforts of retaining tenants, occupancy levels have remained largely stable at

an average of 80% in Grade A office buildings with a noticeably lower occupancy in Grade B offices in the range of 70% and some as low as 50%. As occupancy and rents remain largely stagnant and office stock continues to expand, it is imperative for developers and landlords to look at global trends and adapt their local service offerings, especially as there seems to be limited demand for large-sized office spaces. Only the best Grade A buildings with modern office spaces offering an array of facilities and amenities continue to attract tenants requiring entire floor plates. Most of the enquiry levels and transactions that we observed over the past few quarters were for small and medium-sized office space. We have also witnessed many companies downsizing to

smaller office spaces. As companies try to reduce their operational expenses and offer better and collaborative working environment, the potential of flexible office spaces as a differentiator is immense.

Though the term business centres, co-working spaces and serviced offices are used interchangeably, they have evolved to offer distinctive facilities and cater to specific segments of the market. Their growth however, is unanimously driven by technological advancements and shift in the structure of the economy.



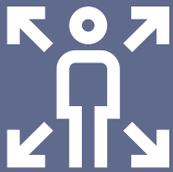
# Current Landscape



## Co-working

This term 'co-working' ignites thoughts of Google or Facebook like offices which have bare concrete interiors, slides instead of stairs, rows of sleeping pods and a pool table in the middle of the office. Although, the concept has developed somewhat from that notion and is now a more sophisticated offering.

Historically, serviced offices were the closest to the co-working concept. They offered the first formal form of flexibility providing fully furnished and equipped office space with full administrative and maintenance support, rented for a short period. There are now a number of the players in the market from the original players of Regus (now IWG) and Servcorp to WeWork, Total Office Group and Fora to name a few.



## Expanding start-up scene

In the case of Bahrain, the start-up scene is expanding at a rapid pace and there is an incredible support network and ecosystem for start-up companies in Bahrain. They have grown by 46.2% over the past 3 years.

- 119 - Innovative start-ups within the growing StartUp Bahrain ecosystem
- 34 - Accelerators, incubators, co-working spaces, and government entities to support
- \$100 million dollars - under the "Al Waha" Fund of Funds to invest in technology start-ups.

The start-ups now include companies within software development, eCommerce, cybersecurity, health, and FinTech industries.



## Entrepreneurship

There is a strong entrepreneurship culture in Bahrain, and this is supported by Tamkeen, the Government subsidised business support system. There are several other accelerators and incubators which offer support in addition to co-working spaces although these are generally for start-ups receiving support. For example, Brinc, CH9 and Flat 6 Labs all incorporate some form of co-working space in the premises.



## FinTech Bay

In line with the diversification of the economy, FinTech Bay was set up in 2018 which is the leading FinTech hub in the Middle East and Africa. As part of the launch, a bespoke co-working space has been created with private offices, hot desks, fixed desks and various communal spaces all available on daily and monthly packages.



## Serviced offices

The concept of serviced offices prevails in Bahrain in the form of small fully furnished and well-equipped office spaces with flexible rental periods offering full administrative and maintenance support. Serviced offices are currently available in the prime commercial areas offered by Regus (IWG), Alliance Business Centers Network, Servcorp, Progress Business Centre, Prime Instant Offices, Elazzab, Business Point and CH9.

# Flexible Spaces Has an Edge!

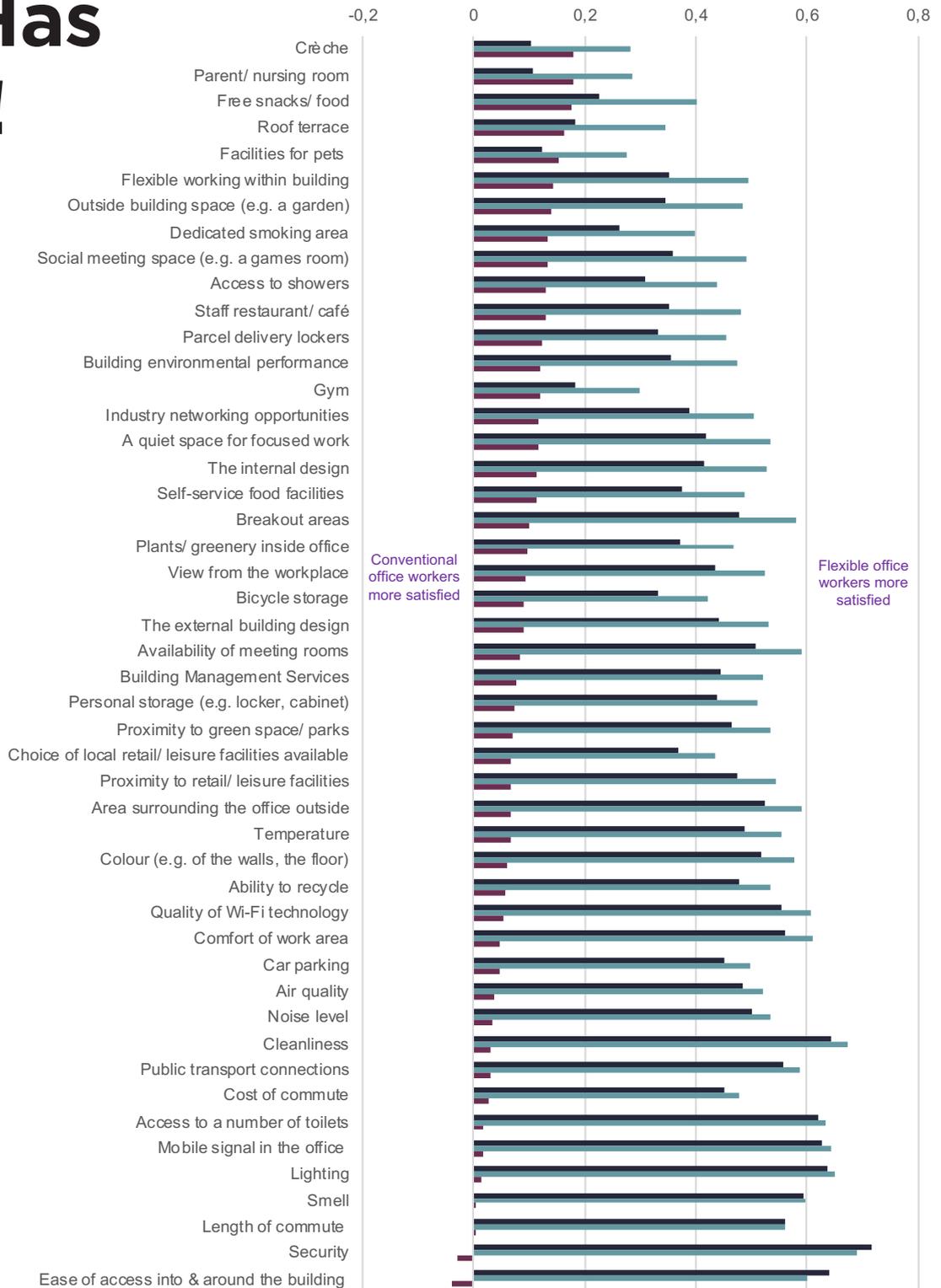
According to 'What Coworkers Want' report by Workthere, there is a clear co-relation between flexible office spaces and employee satisfaction.

According to a recent survey of 11,217 European office workers from 11 key European office markets on various office-related topics, including 48 office features, flexible office workers are more satisfied than conventional office workers with 46 out of 48 office features. The only two aspects that conventional office workers are happier with are security and ease of access in and around the building. Also, younger respondents were 2.6x more likely to prefer a flexible office.

At a coworking space, occupancy costs per employee are lower due to efficient planning and economies of scale in addition to a reduction in Capex for office fit-outs. Carefully designed shared spaces and networking events at co-working sites provide opportunities for relationship building. Members can benefit from the skills and services of the different companies that are part of the space. This helps in valuable cross-industry connections. Also, start-ups that are based in co-working spaces have a higher rate of success, mainly thanks to the expertise and advice that they get from their fellow workers.

Recent changes to IFRS rules have also meant a shift in how long leases are accounted for. They now fall on to a company's balance sheet as a liability. Therefore, there is a shift towards reducing office sizes and allowing staff more flexibility to work from home or from co-working spaces to reduce the respective liability.

SATISFACTION OF FLEXIBLE OFFICE WORKERS VS CONVENTIONAL OFFICE WORKERS



Source Savills Research

## Notes

Workthere is a business by Savills focused solely on helping businesses find flexible office space, whether that's a serviced office, co-working or shared space. France, Germany, Ireland, Italy, The Netherlands, Norway, Poland, Portugal, Spain, Sweden and the UK

# The Way Forward

## The workplace transformation

The workplace as we know is undergoing a transformation led by lifestyle choices of millennials and Generation Z. Consequently, companies are ramping up their efforts to accommodate employee needs, including a more flexible and collaborative work environment. Among the flexible space options, co-working has rapidly become a preferred format as minds become more collaborative, individuals seek the community feel and technological advances allow increased mobility. The early users of these type of spaces were start-ups and freelance contractors. However, as the market matures several co-working concepts which can be defined as 'hybrid' concepts now include private offices, meeting rooms alongside open common areas which cater to a much wider audience from diverse business sectors.

## Flexible spaces

In 2019, Bahrain was one of the first countries globally to rollout 5G networks. This has the potential to increase mobility amongst workforces especially at a time where businesses are seeking to downsize and reduce overheads. We are of the view that this disruption provides an opportunity in Bahrain where the office market has remained subdued for several years with rents and occupancies at all-time lows. Globally, flexible spaces have brought down vacancy rates across the commercial real estate market. While retrofitting of spaces may prove costly for landlords, it opens a new segment of the market which we believe has not been tapped yet. And the concept is no longer limited to office buildings as a number of shopping malls around the globe have created co-working spaces within the development. Retail spaces have been repurposed into office space which are generally on the top floors where footfall

is notoriously difficult to attract. This could potentially provide opportunities to landlords in Bahrain seeking to reduce vacant spaces even more so in the retail sector which is currently facing increasing vacancy rates with the surge in supply as this disruption in the retail sector is likely to change retail patterns.

However, a one-size-fits-all approach may not work. There are still potential risks and challenges when it comes to leasing and operating a flexible space. Depending on business requirements, security and privacy may take precedence in certain business sectors which may not find flexible spaces as the ideal office format. However, we believe that the traditional office format will continue to be challenged and will evolve to provide a holistic working environment. Developers and landlords that identify and adapt to this trend will be able to reap long term dividends.

## THE TANGIBLE AND INTANGIBLE BENEFITS OF FLEXIBLE WORK SPACE



Generally, it is found to be more effective than working from home



For those in small teams in certain locations, it helps avoid loneliness



Provides networking opportunity



Additional benefits such as learning, workshops and wellness sessions



The communal aspect allows for cross collaboration



The flexibility could provide cost saving benefits



Lower initial capital expenditure costs



## Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the global property market.

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