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Investors' insight to co-working spaces in Finland

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Abstract

Co-working phenomenon has rapidly grown into a thriving, global business over the past decade. Simultaneously also co-working space market in Finland has established during the last few years as number of larger commercial co-working spaces have been launched. Whereas co-working spaces are traditionally operated by external service providers internationally, recently opened commercial co-working spaces in Finland are developed and operated by real estate investors. This thesis researches why investors are interested in co-working spaces, what kind of investments co-working spaces are, and how co-working space market is connected to the office market in Finland.

The research was executed through literature review and theme interviews. Literature review sets theoretical framework for the research by summarising the former literature concerning the topic. Theme interviews apply the theory framework to investor and office market perspectives. Altogether seven interviews covered six real estate investor representatives and one global office hotel operator representative from managerial and expert duties.

Co-working space does not have exhaustive definition, but its relation to traditional office hotels is controversial. The co-working space market in Finland is still raw and the potential capacity of the market is yet speculative until international operator(s) will expand their business to Finland. Investors find co-working space market as a natural extension to traditional office market as corporate organisations have indicated increased interest towards flexible workspace solutions.

Investors have identified strong global trends that change the ways of working resulting different needs and requirements for workplaces. These changes have forced investors to develop their office supply to ensure competitiveness also in future. Co-working has been natural selection based on strong international benchmark. Investors have decided to develop and self-operate own co-working concept due to lack of external service providers and urge to execute the concept development process thoroughly. However, also investors with self-operated co-working space concept find possible to partly or fully outsource their co-working space services later and market reaches its saturation point.

Co-working spaces are not significant risk for investor in Finland due the small weight of co-working space both in single office asset and in entire investment portfolio. Part of the investors do not approach co-working spaces as a real estate investment but as additional service and separate business unit instead.

Keywords co-working space, office investment, rental office market, knowledge work, workspace

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Tiivistelmä

Co-working-ilmioistä on kehittynyt nopeasti globaali, kukoistava bisnes viimeisen vuosikymmenen aikana. Co-working-tilamarkkina on kehittynyt viime vuosina myös Suomessa kaupallisten tilojen tarjonnan kasvaessa. Siinä missä co-working-tilat ovat kansainvälisesti tyypillisesti ulkopuolisen palveluntarjoajan operoimia, ovat Suomessa puolestaan viime aikoina avatut kaupalliset co-working-tilat olleet kiinteistösijoittajien kehittämisiä ja operoimia konsepteja. Tämä diplomityö tutkii miksi sijoittajat ovat kiinnostuneet co-working-tiloista, millaisia nämä tilat ovat investointina ja miten co-working-tilat suhteutuvat perinteisen toimistojen vuokramarkkinaan.

Diplomityö toteutettiin kirjallisuuskatsauksella ja teemahaastatteluilla. Kirjallisuuskatsaus asettaa teoreettisen viitekehyksen tutkimukselle referoimalla aiempaa kirjallisuutta aiheen ympäriltä. Teemahaastattelujen kautta teoriapohjaa syvennettiin erityisesti kiinteistösijoittajien ja Suomen toimitilamarkkinoiden näkökulmasta. Seitsemään haastatteluun osallistui kuusi kiinteistösijoittajaorganisaation edustajaa ja yksi globaalin toimistohotellioperaattorin edustaja johto- ja asiantuntijatehtävistä.

Co-working-tiloille ei ole tyhjentävää määritelmää, mutta niiden suhde perinteisiin toimistohotelleihin jakaa mielipiteitä. Co-working-tilamarkkina Suomessa on kehittyvä ja sen kantokyky määrittyy kansainvälisen operaattorin laajentaessa markkinalle. Sijoittajat näkevät co-working-tilamarkkinan perinteisen toimistomarkkinan luonnollisena jatkeena, sillä yritykset ovat osoittaneet kasvavaa kiinnostusta joustavia tilaratkaisuja kohtaan.

Sijoittajat ovat tunnistanee vahvoja globaaleja trendejä, jotka tulevat muuttamaan työnteon tapoja ja siten myös vaatimuksia tulevaisuuden työtiloille. Nämä muutosvoimat ovat edellyttäneet sijoittajilta toimistotarjonnan kehittämistä tulevaisuuden kilpailukyvyyn varmistamiseksi. Sijoittajat ovat kokenee co-working-tilat luontevaksi valinnaksi niiden kansainvälisen menestyksen vuoksi. Osa sijoittajista on päätenyt kehittämään ja operoimaan omia co-working-tilakonseptejaan johtuen ulkoisten palveluntarjoajien puuttumisesta ja toisaalta halusta osallistua konseptin kehitykseen läpi prosessin. Myös nämä sijoittajat pitävät kuitenkin mahdollisena co-working-tilojen operoinnin ulkoistamisen myöhemmin osittain tai kokonaan markkinan kehityessä.

Suomalaiset sijoittajat eivät koe co-working-tiloja merkittävän riskisinä sijoituksina, sillä tilojen osuus yksittäisessä toimistokohteessa ja koko sijoitusportfoliossa on painoarvoltaan hyvin pieni. Osa sijoittajista ei suhtaudu co-working-tiloihin lainkaan kiinteistösijoituksena, vaan sen sijaan lisäpalveluna ja erillisenä liiketoimintana.

Avainsanat co-working-tilat, toimistosijoittaminen, toimistomarkkina, tietotyö, työympäristöt

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To Minni.

Helsinki, 22 May, 2017

Anna Lievonen

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1 Introduction

1.1 Background

If you could work from anywhere, where would you choose to work?

Business premises traditionally stand in top three items of expenditure for companies and corporations at nearly any field of business. However, premises are not only item of expenditure but can be also profitable asset. Tailored workspace solution for organisation's needs is an efficient tool to increase space efficiency simultaneously with productivity of work, employee satisfaction, flexibility of work and brand value (van der Voordt 2004).

At the same time work is and will be rapidly and continuously changing as ICT solutions and innovations enable multi located and mobile working that is not tied to any specific time or location. Due this, also structures of employment have changed and in addition to increased outsourcing and growth of freelancing and self-employment, also permanent employees are adapting more flexible ways of working as there is no need to be physically at the office (Laing 2013). Corporate organisations have responded to the fundamental change and are increasingly replaced parts of their permanent business premises by on-demand space concepts provided by third parties in order to gain more flexibility in their office portfolio (CoreNet Global Inc. 2012).

Remote workers often face imbalance between high-quality work facilities and social relations during work days. Home office facilities are easy to arrange in a way that supports working ergonomically and technologically, but tend often to create strong feeling of isolation. Working from semi-public spaces, such as coffee shops, in turn offer social environment at expense of physical features. At the same time, social environment in semi-public space does not often connect people and is generic background noise instead. (Garrett et al. 2014; van Meel & Brinkø 2014)

This problematic of isolated independent working without community aspects of fixed office was the thriving force in creation of co-working concept by Brad Neuberg after shifting from corporate world to freelancing from home. The known history of co-working spaces begun in 1990's as Neuberg launched Spiral Muse (Botsman & Rogers 2011; Hunt 2009) co-working community to San Francisco, U.S. to fill the need for communal work environment. Driving force behind Spiral Muse was community and diversity of shared activities, also after hours.

Demand for co-working community turned out to be weak and Spiral Muse was closed within one year from opening. However, the idea of co-working spaces kept simmering and later multiple co-working spaces were launched in San Francisco by and for freelancers. Since, the phenomenon has kept expanding all over the world and in 2014 there were altogether over 2,500 co-working spaces globally and largest cities, such as London, New York and Berlin, had even more than 60 co-working spaces each. (van Meel & Brinkø 2014.)

The growth has continued, as during 2015 growth in amount of co-working centres has exceeded 10 per cent in U.S. and for combination centres that offer both regular offices and co-working spaces growth was 12.9 per cent. Currently, the amount of centres for flexible workspace in U.S. is estimated to be in total 3,596 centres, being largest single market

globally. Second largest supply of co-working centres is in U.K. with offering of 3,290 centres. Global market shares of flexible serviced offices (including executive suites) according to The Instant Group (2016) are presented in chart below.

Global Market Share Of Flexible Serviced Offices

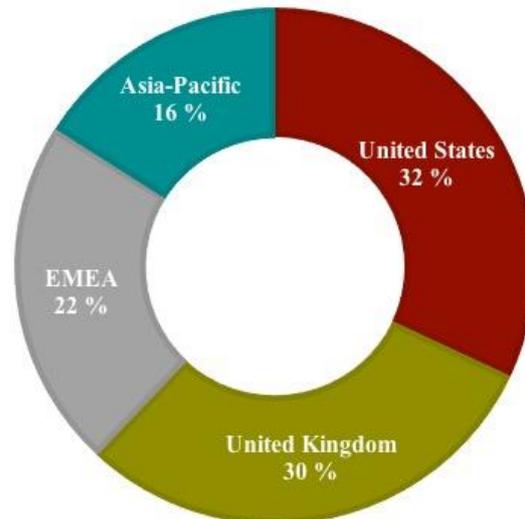


Figure 1: Global market of flexible serviced offices (Source: Instant Group 2016)

Real estate advisory company JLL has named co-working to be one of the top 10 corporate real estate trends in year 2016 (JLL 2016). Also Laing (2013) named co-working as one of the most significant issues of future landscape of work.

Co-working spaces are in international context traditionally operated by external operator, either as a tenant of the subject premises or via some cooperation structure with the landlord. However, in Finland most of the major commercial co-working spaces are operated by the real estate investors through their own concepts that have been managed and developed internally. As the co-working phenomenon is rather new in Finland and the market is still in early stages of development, the exceptional supply structure of the co-working spaces motivated this research. Why one of the largest real estate investors are interested in co-working and why such organisations want to include co-working in their portfolio as in-house produced service? Further, what is the role of co-working spaces in the investment profiles and how such investment varies from traditional office?

1.2 Aim of the Research and Research Questions

The purpose of this research was to build comprehensive understanding of the co-working space business in Finland from real estate investors' perspective and furthermore, analyse the current state and the future of co-working spaces against the local office rental market. Therefore, core concepts of the research are supply and demand models of co-working spaces, office rental market mechanisms related to co-working spaces, and co-working spaces in the framework of commercial property, especially office, investing. Additionally, the future development of the local market is reflected in order to set the framework for the phenomenon in wider context.

In order to successfully carry out the research, research questions are set to frame and structure the study. The research is based on one research question divided into three sub questions as follows:

What makes co-working spaces interesting to real estate investors?

- a) How investors position co-working spaces in office market in Finland?
- b) Will co-working spaces have essential effect to the office market?
- c) What is the role of co-working space in the office investment portfolio?

1.3 Research Methodology

According to Creswell (2014, p. 5) any selected research method consists of research questions, data collection, data analysis, interpretation and finally validation. This approach is also applied in this research and the structure follows Creswell's model.

The data collection of the research is divided into two parts: theory and empirical sections. The theory part consists of literature review, which in qualitative research sets ground for the interviews of the empiric part (Creswell 2014, p. 29). The literature review presents and discusses the key literature over the topic, roughly from two perspectives:

1. The overall concept of co-working spaces (sub-sections 2.1-2.6)
2. Co-working spaces in the real estate investment context (sub-sections 2.7-2.8)

The reviewed literature is strongly based on academic articles around the topic. Additionally, recent guides and reports were reviewed in order to build framework over the current situation of co-working spaces.

Empiric part of the research is executed by individual interviews of office property investors and an office hotel/co-working space operator. Selected interviewees are experienced and knowledgeable over the topic in order to gather useful and relevant data for the research (Rubin & Rubin 2005, p.64-65). Interviews are carried out as semi-structured theme interviews with open ended questions, in order to cover all relevant themes with all interviews but also reserving space for open discussion and unexpected insights. Interview data is collected by record and transcribed after the interview event. Data analysis and interpretation are carried out based on notes and transcriptions of the interviews.

1.4 Scope and Structure of the Research

Due to the investor approach towards the co-working spaces in Finland, this thesis focuses on commercial co-working spaces. Therefore, in-depth discussion of non-profit co-working spaces and their operation models are excluded, though that market segment is considerable large and has role in the evolution history of co-working spaces.

Respectively, also the focus of members and users of the co-working spaces is targeted to the corporate organisation and companies, instead of individual freelancers and self-employers. That is due the investment perspective and the large-scale potential of the co-working business. However, all main user groups are presented as identified in the literature and interviews.

The research covers the main characteristics and differences of the co-working space operating models, especially the comparison between self-operating by investor and external

operator as a tenant or partner. However, the content and requirements of the operating are not thoroughly analysed in this research, but the business framework instead.

Geographically this research focuses in Finland. As the co-working market and phenomenon in Finland is currently in their early stages of development, certain international benchmarking evidence has been drawn, e.g. from Europe and United States. Especially the academic literature concerning co-working is strongly based on markets outside Finland.

The structure of the research is roughly divided in four sections: introduction, theory, empirical research and results that are further distributed to eight chapters. The first chapter gives introduction to the topic and sets framework for the research in terms of background, research questions, applied research methods and the structure of the research.

The second chapter builds the theoretical framework for the research by summarising the findings from the relevant literature regarding the topic. The theory section covers the main trends behind the new ways of working, analyses the concept of co-working, and identifies typical co-working space models and co-working space user groups. The end part of the second chapter focuses on the relation of co-working space in the traditional office market in terms of investment, leasing, and valuation, especially in Finland.

The third chapter explains the applied research methodology and data collection for the empirical research, which in turn is explained in chapter four in form of results. The results in chapter four summarise the findings of the theme interviews with representatives of largest office investors in Finland and a global office hotel/co-working space operator. The results discuss the drivers behind the growing co-working trend and continues to the co-working space business in Finland, and further to the investor perspective on co-working. In the end of the chapter also the development process of co-working space and the future of the co-working phenomenon are discussed.

The fifth chapter concludes the findings of the theoretical and empirical research and summarises the research. The quality of the research and suggestions for further research concerning the topic are speculated in the chapter six.

2 Literature review

2.1 New Work and New Workspaces

According to van Meel (2011) ‘new ways of working’ is misleading in terminology as the phenomenon has been discussed since 1970’s. However, the wide implementation and characteristics of the new work have been reformed and the development of especially ICT solutions have accelerated the trend during past decades.

Ahtela (2016) identifies following main features of future work in Finland:

- Globalisation
- Age structure of population (decrease in volume of working age labour)
- Revolution of ICT and digitalisation
- Expansion of service sector
- Blurred boundaries between industries
- Increase of knowledge work, polarisation of tasks and requirements of expertise
- Multi-locational working
- Distributed and multiple employments
- Change in nature of employment (from employee to entrepreneur)
- Increased individuality (generation Y)
- Change in management and leadership governance and business communication

Author concludes these features into definition of new ways of working as multi fold, decentralized, and individually tailored work executed with digital ICT tools as a part of different networks detached from specific time and place (Ahtela 2016).

The fundamental changes in the ways of working have impacted also the requirements, standards and norms of physical workspaces. As in the general evolution of knowledge work, also workspaces have developed drastically from cellular offices to landscape offices in the 1970s and combi-offices of 1990’s to the currently trending flexi-offices for Activity Based Working (ABW). Throughout these parallel evolution paths, the change in the nature of work itself has modified the physical space, not vice versa. (van der Voordt 2016)

Schopfel et al (2014) state that users (e.g. students) of academic libraries do not have the traditional reason to visit the libraries physically, as all information and services (such as journals, books and databases) are available digitally remotely from anywhere anytime. Therefore, in order to attract the users, the libraries must re-define the reason to visit the physical spaces. Respectively, the traditional office for knowledge workers has faced similar change (Harrison 2002; Laing 2013) as working is possible remotely basically from anywhere.

In discussion of the key roles of office space in future, Harrison (2002) refers to office as ‘resource centre’ where employees have possibility to meet their colleagues in terms of knowledge share and additionally process and communicate the information gathered while working in other locations of distributed workplace network. Also Waber et al. (2014) refers to face-to-face interaction as “the most important activity in an office”.

Co-working with its social and flexibility characteristics can be seen as the next phase on the evolution of workspaces (Laing 2013) and it will be discussed in more detail in the following sections.

2.2 The Concept of Co-Working and Co-Working Spaces

Oxford Dictionaries (2016) defines co-working as:

“The use of an office or other working environment by people who are self-employed or working for different employers, typically so as to share equipment, ideas, and knowledge”.

However, Capdevila (2015) argues that co-working is difficult to define due its status as a trending buzzword. According to him, many serviced offices identify themselves as co-working spaces even though many of such places lack the most important features of co-working space: community and knowledge sharing.

Houni and Ansio (2015, p. 143) define co-working space as a shared physical environment for freelancers, self-employers and remote workers who lease shared workspace. According to this definition, co-working spaces are typically built around open office space with additional space types in shared usage.

Also definition of Garret et al. (2014) refers to membership of workers, such as freelancers, entrepreneurs and remote workers, to communities where everyone work independently but simultaneously in parallel with other. These memberships are typically subject to fee that covers access to open office space and additionally to other shared office amenities.

In research of role of proximity in knowledge exchange applied especially in co-working spaces, Parrino (2013) defined co-working space around following three traits: various workers co-localised in the same work environment, heterogeneous occupation and/or sector background of the workers, and bundle of activities and tools for relationships and collaboration stimulation purposes.

However, also spaces that are divided to private units dedicated to different organisations sharing only the social premises and breakout areas with other occupier organisations are referred as co-working spaces. This phenomenon is more common in co-working sub-markets that are not established yet. (The Instant Group 2016)

As an alternative approach to definition, Spinuzzi (2012) phrases co-working as a service instead of a product (such as building or space), more specifically indirect service that is created through provided space for working either in parallel or in cooperation. Also Laing (2013) identifies spaces for learning, training, events and other collective activities to be one of the characteristics of a co-working space.

2.2.1 Service Offering in Co-Working Spaces

According to van Meel and Brinkø (2014), co-working spaces are continuously in such dense competition that strong customer focus is the most important quality factor of successful co-working space. Despite accommodation in co-working space is likely to reduce costs, members are still in customer role and will require value for their investment.

Co-working spaces have typically responsible space manager or host (Houni & Ansio 2014; van Meel & Brinkø 2014), who is responsible for e.g. the practicalities (such as availability of office supplies and member services), daily activities and engaging new members (sales, contracts, etc.). Additionally, the role of space manager/host can be crucial for the community and collaboration between all members of the co-working space (Capdevila 2015; van Meel & Brinkø 2014).

Many co-working spaces arrange events to their members. Events can vary from informal to formal (business related) and from exclusive (members only) to open for external parties as well. (Houni & Ansio 2014; Capdevila 2015)

2.2.2 Community Aspect of Co-Working

Instead defining physical environment, van Meel and Brinkø (2014) define co-working space as a solution for freelancers and independent workers to avoid loneliness of working from home. Additionally, they see sharing of the office facilities equivalent benefit with achieved sense of community, possibility for collaboration and business synergies.

Kojo and Nenonen (2016) state that the roles of openness, collaboration, interaction and community for knowledge work have grown, which is part of the wider change in workplace trends where social aspects have previously been in smaller scope.

As office amenities can be utilised in home or rental office, and the social environment in semi-public spaces, Garrett et al. (2014) suggest the sense of community to be the factor that separates co-working spaces from other workspace concepts. In their research, based on observations and interviews of activities and members of non-commercial co-working space, strong sense of community was identified through three paths: espousing, learning and enacting.

Espousing represents the tailored form of community that is built between independent members and their backgrounds. Community is not automatically guaranteed and it requires effort from all members. Several co-working space members had changed their workspace set-up in order to avoid negative impacts to their work satisfactory, productivity, domesticity and even health of their employer organisation's work-space. Learning in turn reflects the association of community, which is created by variety of informal activities between space members. Even if member would not participate in any of such activities, their existence is relevant for the sense of community. The third aspect, enacting, means the volunteered commitment to the community through sense of responsibility towards it. In comparison to the regular office community, in which participation to even obligatory events can feel mandatory. (Garrett et al. 2014)

Also Salovaara states that co-working should not be seen only as a physical place where individuals from different backgrounds for different reasons works simultaneously. In-stead, co-working should be seen as an ideology aiming at working method that is based on co-operation and community. (Houni & Ansio p. 44, 2015)

In qualitative case study of nine local co-working spaces in Austin, Texas (U.S.), Spinuzzi (2012) interviewed both proprietors and members of subject co-working spaces. All proprietors identified community, collaboration and/or networking as one of the key definitions of their co-working service model. However, the weight of these social aspects varied notably and were further derived into three categories presented in Table 1 below.

Table 1: Characteristics of different co-working space models (Source: Spinuzzi 2012)

	"The community workspace"	"The unoffice"	"The federated workspace"
Role of the co-working space	Co-working space serves the local community. Service selection covers also spiritual and mental categories.	Co-working space offers interactive services office for workers without office premises.	Co-working space is a forum that brings potential business partners together as collocated network of potential contractors.
Aimed sense of collaboration between members	Members are expected to work independently together, without fundamental expectation of shared business synergies	Members are especially encouraged to collaborate with each other. Interaction within members is one of the essential features of the co-working space.	Members build <i>federations</i> that are able to serve common client by delivering wider project unities through combining individual expertise. Relationships are evenly business related and informal.
Amount of nine surveyed spaces	Two co-working spaces	Four co-working spaces	Three co-working spaces
	Parallel configuration		Cooperative configuration

Spinuzzi (2012) divided the categories further into two configurations, parallel and cooperative, based on the sense of the collaboration between members. In parallel configuration members are working independently and the role of community is mainly to pre-vent the feeling of isolation due the lack of usual workplace network. Cooperative configuration in hand sets the interaction and collaboration between members in key role also in individual work packages as the idea is to find partners to share projects with.

Definitions for co-working space of 17 interviewed members also pointed out social interaction and collaboration, but not as strongly as in the definitions from proprietors. Members saw community mainly as a solution to avoid isolated teleworking alone instead of strong base for business-related net-working (Spinuzzi 2011). Even though Spinuzzi's study is narrow and local sample from the worldwide co-working field of business, the presented result indicates strong role for community and collaboration at least in the headline ideology of co-working.

According to Kojo & Nenonen (2016) the community aspect also includes some challenges, especially in non-profit co-working spaces, when there is no appointed responsible for hosting the space, including cleaning and instructing other and new space members. Based on their research, in such co-working spaces in Helsinki Metropolitan Area, Finland, problems with uncleanliness or space policy/rules offences were identified.

2.3 Co-Working Space Models in Finland

Houni and Ansio (2015, p. 16) identified following co-working space types in Finland: open work environment (for anyone), company incubators, shared offices for certain fields of business, and office hotels that lease flexibly small space units and workstations from months to days and sometimes even for hours.

Kojo and Nenonen (2016) in turn captured the co-working space offering in Finland dependant to two variables: profitability (profit and non-profit) and level of accessibility (private, semi-public and public). Based on this categorisation, altogether six different co-working space models from the Finnish market were identified: third places that usually are between office and home, professional service provider operated co-working hotels, shared

studios for office within office solution, public offices that are open for anyone, collaboration hubs that aim to targeted collaboration within certain interest groups, and incubators for supporting entrepreneurship of new businesses.

Despite some differences in terminology, these two above presented lists of co-working types in Finland are nearly identical. Main difference between office hotels and co-working hotels in these definitions is that they typically differ in volume of space and level of collaboration and networking.

Additionally, corporations are able to harness the benefits of co-working ideology also without locating to the traditional co-working spaces. Laing (2013) presents two co-working space alternatives for corporate organisations: open house and cohabiting.

All above presented different co-working space models are presented in Table 2 below. The different space types are grouped using accessibility and profit categories of Kojo and Nenonen (2016), as this division seemed to be applicable for all discovered co-working space models.

Table 2: Different co-working space types

	Profit		Non-profit
Public	Third places <i>Open for public, but use requires purchasing goods and/or services (e.g. coffee shops)</i>		Public office <i>Free of charge co-working spaces that are open for public. Often attached to other public services (e.g. libraries)</i>
Semi-public	Co-working hotels <i>Professional business model for offering shared office space with related service packages</i> Office hotels <i>Professional business model for offering flexible office solutions</i>	Open house <i>Organisation's private premises are opened for external users in terms of business synergies or cost savings</i>	Collaboration hub <i>Targeted co-working spaces aiming collaboration between members of certain interest groups</i>
Private	Shared studios <i>Shared office sublet by organisation or entrepreneur with flexible lease</i>	Cohabiting <i>Multiple organisations occupy larger workspace and divide the space to private and shared units</i>	Incubator <i>Shared workplaces for pre-selected start-ups to accelerate the business and support entrepreneurship</i>

Open house and cohabiting are located between profit and non-profit columns as these models are based on re-organising space use of such organisation(s) of which core business is not in leasing their premises. In case open house is used as a solution to reduce costs of surplus space, the aim is to profit from the sublease, but is on the other hand unlikely to create earnings. Also cohabiting is only an optional way to arrange organisations' business premises, which does not create actual earnings but is non-profit either as all parties are likely to participate in overall costs. (Laing 2013)

In open house model organisation opens its private workspace to external users, either partly or fully. The external users may be either invited target groups to support the potential synergy benefits of different businesses, or anyone interested about the provided workspace opportunity. As for in cohabiting, several organisations share larger workplace environment. Cohabiting organisations may have dedicated private areas within the office, but in order to ensure knowledge and experience sharing, also at least part of the workspace, in addition to

supporting spaces (such as kitchen, lounges etc.), is in shared use of the organisations. (Laing 2013)

According to Van Meel and Brinkø (2014) corporations create co-working spaces within their otherwise private premises in order to gain benefit either in creation of business synergies or cost savings. Synergy benefits are harnessed when internal co-working spaces are built as incubators in order to attract potential partners or business-wise interesting start-ups. The latter perspective aims at exploiting vacant surplus office space and cost savings by sub-letting the space through co-working concept to external users. These two approaches are rather similar with Laing's open house model, which is also recognized by JLL (2016) as an internal co-working space.

2.4 Co-Working Space Users

Alexander (2008) stated that in the end of the day, usability of a workplace solution originates from whether the solution is used or not. Therefore, identification of potential co-working space users or members is crucial in understanding and forecasting the future of co-working concept design and demand. As touched upon earlier, proprietors' definitions of service model and/or target client group for co-working space may differ substantially from corresponding definitions by the actual members of the very same co-working space (Spinuzzi 2012). According to the same study, the client relationship can still be long standing and simultaneously otherwise satisfactory for both co-working space provider and member.

Parrino (2013) categorises co-working space users into three following groups based on the organisational background of individuals: freelancers, microbusinesses, and employees or self-employed workers that are delivering their work activities on behalf of organisation fully detached from the co-working space. Also Capdevila (2015) defines independent professionals and small start-ups as the user groups of co-working spaces.

Though, many researches (JLL 2016; Van Meel & Brinkø 2014; Waber 2014, etc.) identify also corporate organisations as an increasing user group of co-working spaces.

Based on above, following three main user groups for co-working spaces can be withdrawn: individuals (freelancers and self-employees), micro-firms and start-ups, and corporate organisations. These groups and their characteristics will be further discussed in sub-sections 2.4.1-2.4.3.

2.4.1 Individual Freelancers and Self-Employers

Networking with other co-working space members and participation in events create business opportunities for individual users to market and pitch their products and services to potential customers and partners (Capdevila 2015).

2.4.2 Micro-Firms and Start-Ups

As the start-ups (and micro-firms) tend to aim for growth, co-working spaces rarely offer them long-term premises. Waber et al. (2014) indicate, that organisations with headcount of around 10 are typically facing need for private premises due increased need for privacy, meeting rooms and other supporting spaces in higher volume.

From the real estate investor point of view, above mentioned evolution of small businesses creates opportunity for new tenant to vacant office units either within the co-working space building or other location in portfolio.

2.4.3 Corporate Organisations

In February 2016 Julie Whelan from CBRE forecasted that co-working spaces will be the future norm of work environments, also when it comes to corporations. Phil Kirschner from JLL was on common grounds but saw that corporations are more likely to adopt the ideology and atmosphere of co-working spaces to their private premises by changes in workspace concepts that offer selection of different work environments instead of relocating personnel to external co-working spaces. (Clark 2016)

Van Meel and Brinkø (2014) identified two aspects for corporations to harness co-working spaces for use. Firstly, co-working spaces are a tool to provide decent work environment with office facilities to organisation's internal remote workers who, for instance, live far away from the office or travel a lot. Also project teams that face sudden temporary need for project space could benefit from possibility to access co-working space(s). Often alternative space options, such as hotel rooms or clients' premises, are poor substitutes for subject tasks as such spaces are rarely designed for working in longer term. Secondly, corporations may exploit the network co-working spaces offer as many innovative start-ups with potential for profitable business opportunities and partnerships are often located in co-working spaces. Few large corporations, such as Twitter and AT&T have located their teams in co-working spaces in order to identify synergy opportunities and create relations.

Corporate organisations favour to locate their employees and business units to co-working spaces also in order to foster interaction, knowledge sharing and creativity (Laing 2013). Deviating from above, this approach aims more to accelerate organisation's internal processes and effectiveness instead of creating new business relationships with external partners. Waber et al. (2014) in turn saw that large corporations have established co-working spaces for the purpose to bring their employees together with partners, researchers and clients. Capdevila (2015) shared the insight by stating that a membership in co-working space may enable closer location to clients, sub-contractors or similar interest groups and ease integration to the local community for expatriates.

Also Parrino (2013) approached corporate co-working space users multi-dimensionally. According to his approach, corporate usage of co-working space is a mode of telecommuting that enables remote location of certain functions from headquarters in order to either gain strategic and management benefits or fulfil locational needs of their employees.

However, according to Kojo and Nenonen (2016), profit and non-profit public co-working spaces are occupied by bigger companies basically only as a meeting place, whereas freelancers and other small business owners are the main users for daily working. In their research the business lounges were however excluded.

JLL (2016) summarised basically all above mentioned approaches to corporate organisations as co-working users into four models: internal collaboration, co-working memberships, external co-working space and internal co-working space. Internal collaboration refers more to workspace concept of the organisation that focuses on high collaboration between the employees and business units. In co-working membership model, organisation provides memberships full- or part-time to external co-working spaces. Co-working space possibility

can be limited to certain teams or entire organisation and the amount of time spent in the external co-working spaces varies by organisation. The third model, external co-working space, sets the organisation also in the role of co-working space provider but outside the private business premises of the organisation. In this model also external members are able to participate, typically within limited selection of certain companies or branches etc. In the last model of internal co-working space organisation opens co-working space within its own business premises and invites also external members to work there. The models are presented in the Figure 2 below:



Figure 2 Corporate co-working space user models (Source: JLL 2016)

In this approach, the operational complexity increases when moved from internal collaboration towards internal co-working space.

2.5 Success of Co-Working Space as a Workspace

According to Kojo and Nenonen (2016), knowledge workers have been harnessed to independently select the time and location for their work activities. Their study distils new ways of working to terms mobile, multi-locational, remote, flexible, distributed, and virtual based on the change in the content of the work caused and enabled by globalization and development of information and communication technologies (ICT).

Van Ree (2002) stated, that optimal ratio between reduced occupancy costs and increased employee productivity is the main contribution to organizational performance. In this application, occupancy costs present efficiency of the accommodation and productivity the effectiveness of the accommodation.

In search of criterion for maximal added value from business premises, van Ree (2002) derived key guidelines for five following performance criteria: effectiveness, efficiency, productivity, flexibility, and creativity. These guidelines are presented in Picture 3 below.

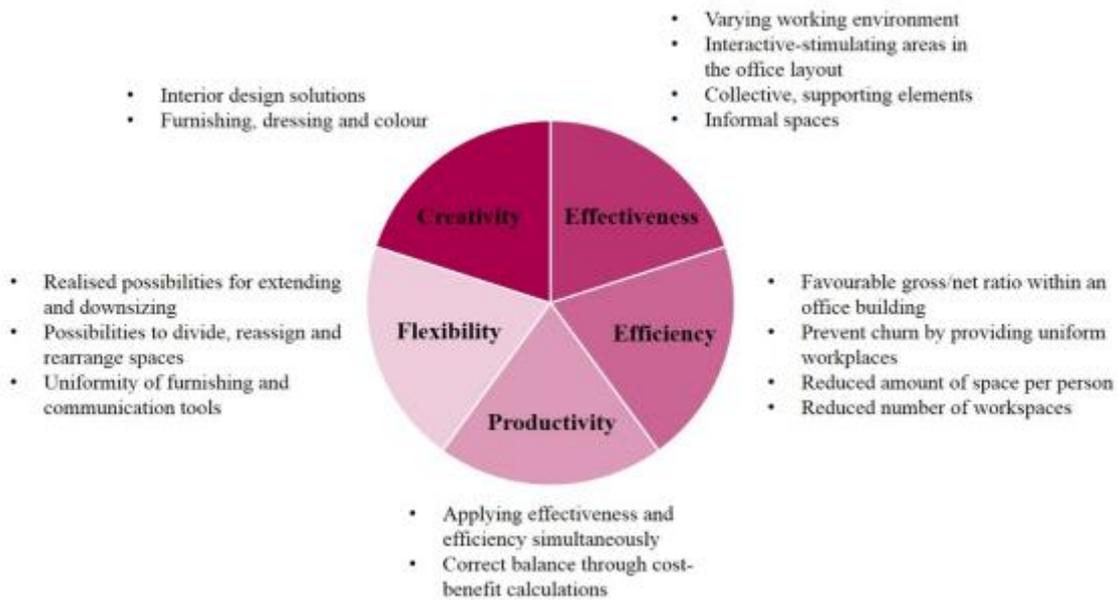


Figure 3: Value adding office performance criteria (Source: van Ree 2012)

As van Ree's model (2012) links the business accommodation performance to the actual business performance, these presented guidelines can be considered as certain measurements for success of office solution or workplace concept.

In van Ree's approach effectiveness reflects the attributes of the physical space, especially highlighting the importance of providing different space types within office set up. Further, efficiency presents the financial efficiency of the space solution in terms of simultaneously reduced costs and space use. Van Ree balances these two criteria by combining those under productivity, which serves as the metric of balance between effectiveness and efficiency. Productivity is discussed further with collaboration in section 2.5.1.

Also creativity and flexibility describe the physical characteristics of the office space according to van Ree (2012). The space can be adapted to the changing need and requirements of the business in case these two criteria have been fulfilled. Creativity in the context of work environments and co-working is further discussed together with innovation in section 2.5.2.

2.5.1 Productivity and Collaboration

According to Laing (2013), regardless of the workplace concept and office environment set-up, the most valuable workplace of the future for knowledge work enables and strengthens multiple virtual and social networks. Many global corporations have shown evidence to this statement by underlining the value of encounters within employees and even restricting the right for remote work in order to lead personnel to informally collaborate and change ideas. Also Waber et al. (2014) state that especially informal interactions and encounters between knowledge workers improve performance, regardless of whether the counterparty is inside or outside the organisation.

Collaboration can be also virtual in addition to interaction in person. As the physical distance between team members have and will increase, that will have negative impact to the level of interaction and engagement. Even though simultaneous increase in virtual interaction and

engagement will balance the situation, physical proximity outperforms the remote team work. (Waber et al., 2014)

However, Laing (2013) states also that work patterns should be complemented by telecommuting and mobile working due better work-life balance, higher productivity, better concentration, lower stress level and reduced commuting time. The best potential from the network of workplaces is exploited when individual workers select the combination for usage of office, home and third collaborative work environments. These combinations may vary from day to day and also blending work and private lives also often creates optimal framework for knowledge workers. Laing compacts the phenomenon as “*The total amount of space allocated to individual work is reduced and the total allocated to collaboration is increased*”.

2.5.2 Creativity and Innovation

Creativity and innovation are often used as synonyms or in causality. Some define innovations as a consequence of creativity and vice versa (Man 2001). Also Gurteen (1998) discusses the challenges in terminology, but defines both innovation and creativity as particles of a process that develops and transforms knowledge into business value. Due this discourse creativity and innovation are seen equal characteristics in application of workplace concepts and co-working spaces of this research.

In study of innovation dynamics of 21 co-working spaces in Barcelona, Capdevila (2015) identified three stages of innovative capacity of subject co-working spaces. In lowest level, members of co-working spaces have selected to locate in a co-working space based on the possibility to share operational costs with other members concentrating their individual work without innovative collaboration. In second level, members of the co-working space had stronger sense of community resulting collaboration and innovative knowledge sharing across businesses. The typical motivation for the collaboration were either learning and improving members’ professional capabilities or gathering such resources or knowledge members lacked. On the third and highest level of innovation members were motivated to collaborate in order to reach common goals, create new knowledge and resources. Along the innovative collaboration of the members, also the role of co-working space managers/hosts was strongest in the third level, whereas in the lowest level the space managers/hosts had only light role in terms of community management, if none.

Thus, co-working space can outperform firm in level of creativity and innovation, which is one reason for corporate organisations to utilise co-working space memberships e.g. in terms of recruiting new talents (Capdevila 2015). However, these characteristics vary significantly from co-working space and firm to another.

2.5.3 Disadvantages of Co-Working as a Workspace

In research project SANE over the distributed workspace model for corporate organisations’ Harrison (2002) identifies following list of risks related to the model:

- Blurred line between work and private life may cause stress due the pressure of performance and result expectations as possibility to work whenever and wherever turns to obligation
- Challenges in maintaining organisational culture as employees are working side by side with personnel of other companies

- Management challenges as meetings and communication between managers and employees require more planning and are more difficult to be arranged on an ad-hoc basis
- Weaker brand recognition and awareness of the customers
- Security risks in public and semi-public environments with external people, even competitors

Even though the research covers co-working spaces only indirectly as one potential link in the chain of distributed workplace model, presented selected risks above can be related to the co-working spaces when corporate/organisational users are concerned.

In their flexible office report DTZ (2015) identifies also the risk of scattered organisation culture and commercial challenges from the physically disconnected personnel. Additionally, the assumption of good availability of flexible office space, such as co-working space, may be misleading in case the demand continues to increase but the new supply is not able to keep up with the phase.

Also JLL (2016) identifies certain barriers for co-working, especially for corporate users that are in line with the ones discussed above. The first category is security and privacy, which refers to cyber and data security but also business ideas and intellectual properties that may be exposed to external parties in co-working space. The second risk category is the cultural challenges, as the organisation will be spread in multiple location without strong sense of solid shared culture. The third risk is related to motivation, meaning the possible reluctance of the organisation to fully adapt the usage of co-working.

2.6 Co-Working Space Market

JLL (2016) forecasts that the market of shared offices in United States will continue rapid growth for next two to three years and will then slow down. However, there are no clear signs of the potential market development after that phase. Also Spinuzzi (2013) expects co-working phenomenon with all of its variations to multiply in future driven by fragmentation of cities and higher mobility of workforce.

Laing (2013) brings office premises and workspaces into the context of collaborative consumption, especially concerning occupants of smaller space units but also larger organisations. The author states further that this shift towards collaborative consumption will change the office property market dynamics. Laing, however, also presents that the change does not necessarily weaken the status of investors, as office environments with high service offering, flexibility and space efficiency will yield in higher rent levels instead.

According to Harrison (2002), flexible office space occupancy on demand basis in forms of serviced office offering, including co-working spaces, is likely to change the structures of traditional offices rental market. Especially in established markets where lease periods have traditionally been significantly long, such as in United Kingdom.

Additionally, Harrison (2002) suggests that developers as a supply side representatives of the office market will increasingly acknowledge high profit potential of value-added services instead of considering office properties purely from the passive investment vehicle point of view. That is, due to the demand from especially international and distributed corporations that currently gather space, building operation services and business services from number of providers instead of centralized channel with flexibility and possibility for tailored solutions.

In his research of co-working spaces in Barcelona, Spain, Capdevila (2015) claimed that economic crisis had significant role in the rapid expansion of co-working phenomenon in Barcelona. As the crisis increased vacant office stock, the local investors and brokers were forced to find alternative solutions to cover the negative cash flows of empty office premises and even lower rent rates from co-working use was improvement to the situation. From this perspective, the office market situation has affected the co-working space markets.

2.7 Finnish Office Market

According to KTI (2016) 29.2 per cent of the total size of 54.5 bn€ property investment market was office properties in 2016, followed by residential (28.6%) and retail (25.9%) properties. The size of the total office stock in Finland was 19.4 million square meters (sq m), 77 per cent of which was located in Helsinki metropolitan area (HMA). The office stock in HMA increased rapidly during years 2008-2015 due high development activity. This dominance of HMA as a centre of commercial property market is stronger than in other similar size centres in Europe. (KTI 2016)

The investable office stock in Finland can be divided into three categories: multitenant office buildings, single tenant office buildings (headquarters typically) and business park properties. Portfolios of domestic institutional investors typically cover investments in all three office categories. Property companies and funds in turn typically have more focused portfolios. Due to weakened investment performance, share of office investments in Finnish institutional property portfolios has decreased. Foreign investors' office investments in Finland are mainly focused on the two latter of the categories. In total, around 80 per cent of commercial office properties are owned by professional investors. (KTI 2016)

Total office take-up has remained in relatively steady state annually (KTI 2016). However, occupier organisations have been considerate concerning business premises decisions due the unstable overall economic state (JLL 2016). Trend of more efficient office space solutions has resulted decrease in unit size of single leases and further, increased vacancy rates (KTI 2016). Additionally, tenants require higher flexibility from the office space, which has forced landlords to launch flexible space concepts, such as co-working spaces, for also shorter term use (KTI 2016).

Office vacancy rates in both HMA and whole Finland have been in rather steady increasing trend since year 2008, vacancy rates in HMA being around 20 per cent during recent years. Investors have struggled vacant space with wide incentive offering of longer rent free periods and higher tenant investments in order to attract and engage tenants. Additionally, older office premises have been developed to another purpose of use when functionally, regulatory and financially feasible, mainly into hotel or residential use. (KTI 2016)

Finnish legislation provides wide freedom of contract for commercial lease agreements (KTI 2016). The most typical market practices of office leases in Finland are presented in table 3 below.

Table 3: Lease structures in Finnish market practice (Source: KTI 2016)

	Multi-tenant offices	Single tenant offices
Lease term	3-5 / until further notice	10-20
Basis for rent	Space area	Space area
Rental payments	Monthly	Monthly
Indexation	Cost of living index	Cost of living index
Rent review	Annually	Annually
Internal repairs	Tenant or landlord	Tenant
External repairs	Landlord	Tenant
Building insurance	Landlord	Tenant
Property taxes	Landlord	Tenant

Office rents in Finland are typically fixed, thus bound to indexation upon agreement. Certain minimum and/or maximum gaps for the indexation are often defined in the lease agreement. Gross rent is the most common rent structure, which covers both net rent and service charges, the latter including also OPEX and minor repairs. Gross rent structure is typical especially in multi-tenant office properties, but up to 80 per cent of all leases are gross rent based. Similar to gross rent structure, also shared rent is applied at times, typically in form of green leases. In shared rent structure, maintenance costs are charged and followed separately. Net rent structure is most typical in single-tenant office buildings, when tenant is responsible for the maintenance costs. Turnover based rents are rarely applied in office leases and it is more common structure in retail sector. (KTI 2016)

2.8 Office Investment Framework in Finland

Haight & Singer (2005, p. 379, 382) summarise office investment market to be ‘highly cyclical, but rather predictable’, providing investors opportunity for excellent returns in comparison to the risk attached. According to the authors, the predictability is caused by four external forces, as listed below:

- National and/or regional business cycle
- Local office building life cycle
- Changes in the preferred areas for office buildings
- Changes in industrial structure and work mode

Changes in these forces tend to have direct effect to the office market, although the realisation of the effects are not typically immediate. However, although the office market is predictable based on the changes in the surrounding economy, the authors also highlight the high volatility of the market due these multiple change forces.

The effect of changing business cycle and office building life cycle are linked to the demand of office space in each market. When the economy, and therefore several fields of business, are blooming, occupier organisations are recruiting more workforce and often simultaneously increasing the leased office space per employee. This change increases the demand and decreases the vacancy rates finally increasing the market rent levels. The office

building life cycle refers to the balance between existing and new development office buildings and the investment decisions to new development projects typically when the rents are increasing rapidly making the investment case profitable. The negative development of business cycle has reversed effect on the office market, as tenants are decreasing their office spaces and aiming higher space efficiency. This in turn increases the vacancy rate and can eventually decrease the rent level. (Haight & Singer 2005, p. 382-384)

Changes in preferred office areas refers to the continuously developing trends in each office market for highest demand locations. Regional development (planning, transportation, services, etc.) and possible clusters for specific fields of business directs the demand to certain areas, potentially simultaneously emptying others. (Haight & Singer 2005, p. 384-385)

Last, the changing industrial structure and work mode refers to the nature of office work delivered within the office premises. The amount of office workers has increased during the past decades and knowledge work in general is growing. Simultaneously, the requirements for the space are changing as the work and tools for the executions (e.g. ICT) are developing rapidly. These matters affects to the form of the office demand in terms of space efficiency per organisation and employee, and physical attributes of each subject space. (Haight & Singer 2005, p. 385)

In line with the approach of Haight & Singer (2005), also JLL (2017a) summarises the office market development in a form of rental cycle presented in the Figure 4 below. This 'Office Property Clock' is divided into four market phases: falling, bottoming, rising and peaking markets. First two of which presents more tenant favourable market with lower rent levels and higher vacancy rates, enabling better negotiation position and resulting potentially higher incentives from landlord. The last two, in turn, present landlord favourable market with higher rent levels and lower vacancy rates with better negotiation leverage on landlords' side. The phase of each market is presented by locating the subject market(s) on the outer circle of the clock and the application enables presenting several markets (domestic or international) simultaneously.

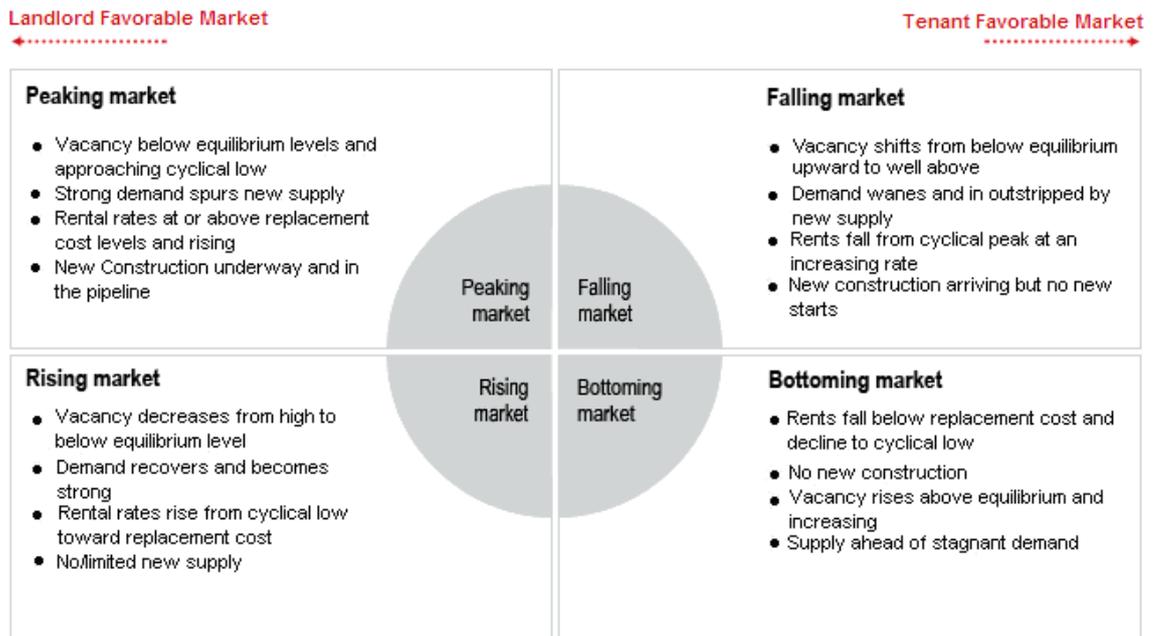


Figure 4: Office Property Clock (Source: JLL 2017)

Also Olkkonen et al. (1997, p. 25) link the commercial property market to the business cycle and economical stage as business premises can be seen as a factor of production. According to the authors, pricing of the business premises is based on supply and demand in the property market which in turn is strongly derived from the demand of goods and services. This chain is presented in the Figure 5 below.



Figure 5: Derived demand chain of business premises (Source: Olkkonen et al. 1997)

Further, Olkkonen et al. (1997, p. 26) advance the demand chain of business premises to the investment demand. In authors' approach, demand of business premises are linked to the rental levels to be received from the premises based on the features of the premises. Further, the expected rental incomes as cash in-flows define the framework for risk and return from the investor perspective, defining the investment demand (Olkkonen et al. 1997, p. 26). Also this described chain is presented in the Figure 6 below.

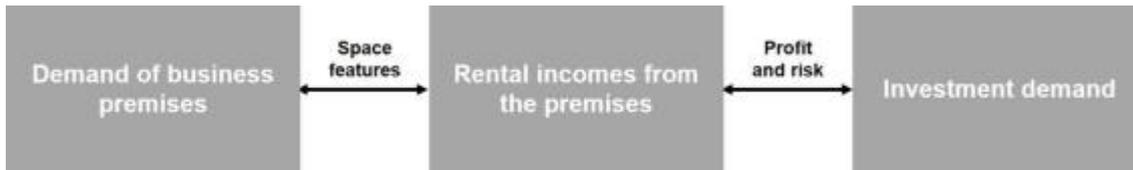


Figure 6: Connection between demand of business premises and investment demand

According to Haight & Singer (2005, p. 418-419), professional management of office investment during the holding period is in as crucial role as the physical attributes of the property, such as location. The authors identifies retaining tenants and offering services in accordance to tenants’ requirements success factors for office investment. Further, the authors summarises location, amenities, design, layout, prestige, and cost as the main drivers for tenants to select certain office solution.

2.8.1 Framework of Real Estate Investment Structures

According to Sanastokeskus TSK ry (2012, p. 44), real estate investment refers to ‘investing of capital in real estate or its part to obtain profit or other benefits’. KTI (2001, p. 12) completes the definition by stating that the aim of the real estate investment is to gather both cash flow over the investment period and also profit from the residual value in the end of the investment period. Also Haight & Singer (2005) state that the cash flow generated by the property is the actual subject of trade in commercial real estate transaction.

Real estate investment structures are typically classified based on two attributes: private/public and direct/indirect investments (Oaktree 2016; KTI, 2017; Sanastokeskus TSK ry 2012). Investment structure is defined private or public based on whether the investment is open to anyone interested to participate (public), closed (private) or something between these options. Direct investments are structures which invest directly to the property (land and/or the building), whereas in indirect investments the ownership is structured through investment vehicle and the ownership concerns for example shares of the vehicle instead of the property directly. The main real estate investment structures are presented in the Figure 7 below with their characteristics.



Figure 7: Real Estate Investment Structures (Source: Rakli, 2017)

2.8.2 Investment Decision-Making Process and Strategies

In their research of office investment decision process Roberts & Henneberry (2007) identified five stage decision process, which is pruned version of normative models as the decision-making process tends to be simplified from theoretical models in practice. The identified stages are as follows:

1. **Strategy setting phase:** decision criteria and project goals based on defined strategy
2. **Search phase:** search of potential properties within selected geographical areas/sub-markets
3. **Analysis of potential markets and investments:** in parallel analysis of all identified investment options against the market and comparison of each investment option
4. **Consultation phase:** consultancy of other parties before decision making
5. **Selection phase:** negotiations, closing and post-investment actions with winning investment option

There are also several alternative approaches for defining the stages for real estate investment process in literature (e.g. Olkkonen et al. 1997; Jaffe & Sirmans 1995; Pyhrr et al. 1989). However, the main structure of the process is in all cases described similarly and the main variations are in naming the stages and whether certain stages are combined or separated.

Haight & Singer (2005) divides the real estate investment process into three phases: acquisition, holding period and disposal stage. Olkkonen et al. (1997, p.13) have similar approach in their simplification of the three main stages of real estate investments: initial investment in acquisition of the property, regular cash flow during the holding period and the residual value in disposal of the property. As detailed in investment decision-making process of Roberts & Henneberry (2007) above, the investment strategy for each project should be set in detail already in the beginning of the investment process.

According to Olkkonen et al. (1997, p. 99) investment strategy sets the framework for evaluating the investment throughout its life cycle as it defines the nature and scale of such return and risk factors that are taken into account while making the investment decision. Based on this, the authors suggests further that the investment strategy should be the first phase of investment decision-making process. Investment strategy consists of four section: definition of investment philosophy, setting the targets and criteria for decision-making, plan of action including selection of execution methods, and selection of analysis methods (Olkkonen et al. 1997, p. 106).

Investment philosophy summarises the principles, values and beliefs that guide investor's actions throughout the process. Philosophy sets the guidelines for the investment by defining the role of investor, time resource available for the investment, management structure of the investment, and investment structure. (Olkkonen et al. 1997, p.106-107)

Role of investor in this application means whether the investor acts as a passive source of financing or active investment manager. The time resource reflects the availability of resources to be allocated to the actual investment activities, which is typically defined based on whether investing is core business of the investor organisation or more additional or temporary part of the business (e.g. construction companies). Management structure refers to the relation of outsourcing internally produced property and investment management services, such as leasing. In selection of investment structure investor decide whether the

investment is made as direct or indirect investment and further details (see section 2.9.1). (Olkkonen et al. 1997, p. 106-107)

Whereas investment philosophy defines general principles of the investment activities, targets summarises the concrete aims for the investment strategy (Olkkonen et al. 1997, p. 107). Further, the targets should be as concrete as possible, but the bundle or targets can, however, include both financial and non-financial targets (Olkkonen et al. 1997, p. 108). The authors identifies four key components for financial targets: benchmark, return, risk and time horizon. Benchmark is selected reference to compare the investment with in order to evaluate the success of the investment in relation to the market and/or other investments. Return targets should be derived based on the selected benchmark, for example reaching the average market return or exceeding the market return rates by certain percentage. Risk is defined in parallel with return targets, as the risk level tends to increase as the expected returns increase. Definition of risk profile is driven by investor's capability and willingness to carry risk. Time horizon sets the schedule for the investment throughout the investment period, but can be divided in smaller sections. Benchmark, return and risk targets can differ for different time horizons. (Olkkonen et al. 1997, p. 107)

Olkkonen et al. (1997, p. 108) see decision-making criteria as defined triggers to reach the set investment targets. According to the authors, the criteria forms thresholds that should be met or exceeded throughout the investment process. Also criteria can be divided into financial and non-financial classes and organised based on significance for situations where two or more criteria are in contradiction with each other (Olkkonen et al. 1997, p. 109).

Plan of action for the investment strategy defines the practical actions to be taken during each phase of the investment and decision-making process. Plan ensures that all steps will be covered and the process is delivered comprehensively. (Olkkonen et al. 1997, p. 110). By selecting the used analysing methods for the entire investment cycle, investor can ensure that the evaluation will be executed consistently at all phases and the information produced is higher in reliability.

Also Pyhrr et al (1989, p. 86-87) has similar approach to the framework of investment strategy as Olkkonen et al. (1997). The framework with the function of return and risk throughout the investment process are illustrated in the Figure 8 below.



Figure 8: Framework for an investment strategy (Source: Pyhrr et al. 1989)

Goddard & Marcum (2012, p. 52-53) reflected the investment strategy against holding period of the investment and identified five alternative strategies. Three of the strategies concerns shorter holding period: market timing or rotation, arbitrage investing and opportunistic investing strategies. The rest two strategies are for longer investment horizon: growth oriented and value investing strategies.

In market timing or rotation strategy investor's return indication is based on value growth by timing the purchase on low price point and selling in turn on increased market. The investment period is typically short as the execution is strongly bound to market development that tends to change rapidly at times. Second, the arbitrage investing strategy in which investor leverages price differences of different areas for similar investment options by purchasing larger property from private market and turning it public through real estate investment trust (REIT). Third strategy for short term investing, opportunistic investing, seeks returns through improving and developing the investment property. The holding period for this strategy varies from very short, even less than two years, up to moderate three to five years. (Goddard & Marcum 2012, p. 52)

In growth strategy investors seek for investment opportunities that provide possibility for value growth through development of the entire area or sector. The strategy is based on searching future trends, in form or, for example, developing residential areas. As the growth in a rawer market can take time, e.g. due to changing the purpose of use of the existing stock, construction work and zoning phases, the investment horizon for the strategy is expected to be longer. (Goddard & Marcum 2012, p. 52) In the last investment strategy of Goddard & Marcum (2012, p. 52-53), value investing, is based on the continuous and high quality income creating capacity of the investment. As continuity is the foundation of the strategy, the holding period should be set around seven to ten years.

2.8.3 Valuation Framework of Office Properties

According to the research conducted by IPD and KTI in 2012, 66 per cent of internally valued and 74 per cent of externally valued commercial income generating properties were valued by discounted cash flow (DCF) method (excluding residential properties, development, land, forest etc. exceptional valuations).

DCF method is income capitalisation valuation approach that is widely used in investment and accounting valuations of commercial real estates and properties. DCF method is market driven and combines historic data and future forecast of income and expenses of subject of valuation. Present value of series of cash flows is derived by market-driven discount rate. (IVS 2003 p. 321-322)

In real property valuation by DCF method, rents and tenant services forms the cash inflow. Decent DCF valuation process requires lease analysis of the current leases in the subject property. Rental incomes from certain lease can be reliably assumed to continue only until the end of the certain (fixed) lease period. After the end of lease term, even with rolling agreement until further notice basis, the assumptions for rental income should be based on market conditions (i.e. combination of market rent and market vacancy). (IVS 2003, p. 324-327)

Therefore, valuation concerning space units use of which does not have established market as benchmark for assumptions and/or even short term certainty for the cash inflows may face challenges in saleability and valuation in other purposes, such as collateral.

3 Empiric Research

3.1 Empirical Research Methods

As the former research and knowledge of the topic is relatively narrow, interviews enable flexible data collection with minimum preliminary limitations and enables multi-dimensional approach to the topic (Hirsjärvi et al. 2007, p. 200). Aim of the theme interviews is to gather sufficient record of information in order to draw conclusions from the subject matter (Hirsjärvi & Hurme 2008, p. 66), which in this case are the insights and forecasts of real estate investors over the future of co-working spaces in Finland.

Application of qualitative data collection methods is one of the main characteristics of qualitative research, however, interviews can be applied also as quantitative research method (Eskola and Suoranta 1998, p.86). Theme interview is typical qualitative data collection method, where insights and personal reflections of interviewees are sought input to the research. Participants are typically intendedly selected instead of random sample (Hirsjärvi et al. p. 160, 2007).

Tuomi and Sarajärvi (2002, p.77) defines theme interviews as semi-structured inter-views, whereas Eskola and Suoranta (1998, p.86) separates these two interview approaches from one another. The methodology of theme interview approach is to go through all beforehand selected themes, but the final format and sequence of the questions will be formed only during the interview leaving more flexibility for additional topics which could be even impossible to predict (Hirsjärvi et al. 2007, p. 203; Tuomi & Sarajärvi 2002, p.77; Eskola and Suoranta 1998, p.87).

Despite the lack of strong chronological structure, the framework of themes is structured before theme interviews in written format to guide the interview process in needed extent. However, the theme framework must give leeway for in-depth discussion as well. In theme interview method both interviewer and interviewee(s) shape and channel the content. (Hirsjärvi & Hurme 2008, p. 66-67).

The theme interviews should be recorded in order to ensure that all relevant content will be noted in analysis and the discussion can flow uninterruptedly in harmony (Hirsjärvi & Hurme 2008, p. 92-93). Records are afterwards transcribed word for word as typically done in qualitative research before the analysis of the collected data (Hirsjärvi et al. 2007, p. 219). According to Hirsjärvi et al. (2007, p. 224), the findings from the analysis of the collected interview data must be interpreted in order to define the key results and conclusions of the executed research.

3.2 Data Collection

As the research focuses on investor perspective of co-working spaces, both office real estate investment approach and co-working space operations were sought in the selection of interviewees. In current co-working space market in Finland most of the higher volume co-working spaces are also operated by investors, such organisation from the largest office investors in Finland were selected who have launched their own co-working space concept. That list was completed with an investor who does not currently have own co-working space concept but is landlord for external co-working space (and office hotel) operator. To gain the full insight to the co-working business also global office hotel and co-working space operator was selected. The list of interviewees is presented in table 4 below.

Table 4: List of interviewees

Name	Company	Current Position	Co-working space status
Tiia-Maria Koivusaari	Sponda Plc	Business Unit Manager, Co-working offices	Co-working space in Helsinki
Joona Reunanen	Sponda Plc	Senior Vice President, Office Properties	Co-working space in Helsinki
Ilkka Tomperi	Varma	Investment Director, Real Estate	Co-working space in Tampere
Benjamin Kalliola	Varma	Real Estate Developer	Co-working space in Tampere
Jukka Vakula	Technopolis Plc	Director, Helsinki Metropolitan Area	Network of co-working spaces
Ville Laurila	Ilmarinen	Letting Manager	Landlord for co-working/office hotel operator
Klaus Koponen	Regus	Country Manager, Finland	Network of office hotels, opening co-working space

Sponda Plc is a Finnish real estate investment company with investments in office, retail space, shopping centres and logistics properties (Sponda Plc. 2017). Sponda is the second largest direct property investor in Finland and largest of the listed property companies (KTI 2017). Sponda has launched Mothership of Work (M.O.W.) co-working concept in Helsinki Finland in February 2016. After the interviews Sponda announced opening of second M.O.W co-working space in Ruoholahti, Helsinki in fall 2017.

Varma is a Finnish mutual pension insurance company with domestic and international real estate investments mainly in office, commercial properties and housing (Varma 2017). Varma is the fourth largest direct property investor and largest institutional property investor in Finland (KTI 2017). Varma has launched first VarmaWorks concept co-working space in Tampere, Finland in May 2016.

Technopolis Plc is a real estate company providing network of serviced office business park campuses in the Nordic-Baltic region (Technopolis Plc. 2017). Technopolis is 13th largest direct property investor in Finland and third largest of the listed property companies (second largest is Citycon Plc, investing in shopping centres) (KTI 2017). Technopolis has launched Human Workspace (UMA) co-working concept in May 2016. UMA co-working spaces are

located in selected Technopolis' office campuses across Finland and in CBD of Helsinki in externally leased premises. Technopolis released in April 2017 the expansion of the UMA center in Helsinki CBD due high demand (Technopolis Plc. 2017).

Ilmarinen is a Finnish mutual pension insurance company with real estate investments mainly in office, commercial premises, warehouse and housing (Ilmarinen 2017). Ilmarinen is fifth largest direct real property investor in Finland and second largest institutional investor (KTI 2017). Ilmarinen does not currently have launched or planned own co-working space concept, but has signed lease with co-working space operator in CBD location in Helsinki, Finland.

Regus is the largest flexible office provider (office hotels, co-working spaces) in the world, acting in over 120 countries globally (Regus 2017). Regus is founded in Belgium and listed in London Stock Exchange. Regus is pure operator without own property holdings. Currently Regus has small co-working space units within its office hotel centres in Finland. Regus acquired Dutch co-working space operator Spaces in 2015 and is planning to enter also Finnish market.

The interviewees were selected based on their expertise and background in the field of real estate investments, rental office market, co-working spaces and/or service operating. Interviewees were contacted by phone and invited to participate in the research. The interviews were arranged in the Metropolitan Area of Helsinki, two in the JLL Finland's office, one in the co-working space of the interviewee and the rest at the headquarters or other office facilities of the interviewees. Interviews were executed between 12 January and 3 February 2017.

The initial theme outlines for the interviews are presented in Appendix 1 and 2. Part of the interviewees revised the interview structure before the interview. The final structure and questions in the interviews were somewhat modified as the interviews proceeded based on the experience from the first interviews.

The duration of the interviews varied between 40 to 60 minutes. All interviews were held in Finnish to maximise the spontaneity and comprehensiveness. Interviews were recorded by mobile phone recording application with preliminary approval of the interviewees and the interview records were transcribed afterwards. During the transcription process altogether fifteen different themes were identified from the framework of interview outlines (Appendix 1 and 2). The transcripts were analysed by classifying the interviews thoroughly into the themes by color-coding and tabulating. The theme coded data was structured into seven topics. The themes and final topics are presented in the figure 9 below. The number in brackets refers to the chapter number of each topic, which are further concluded in section 4 Results.

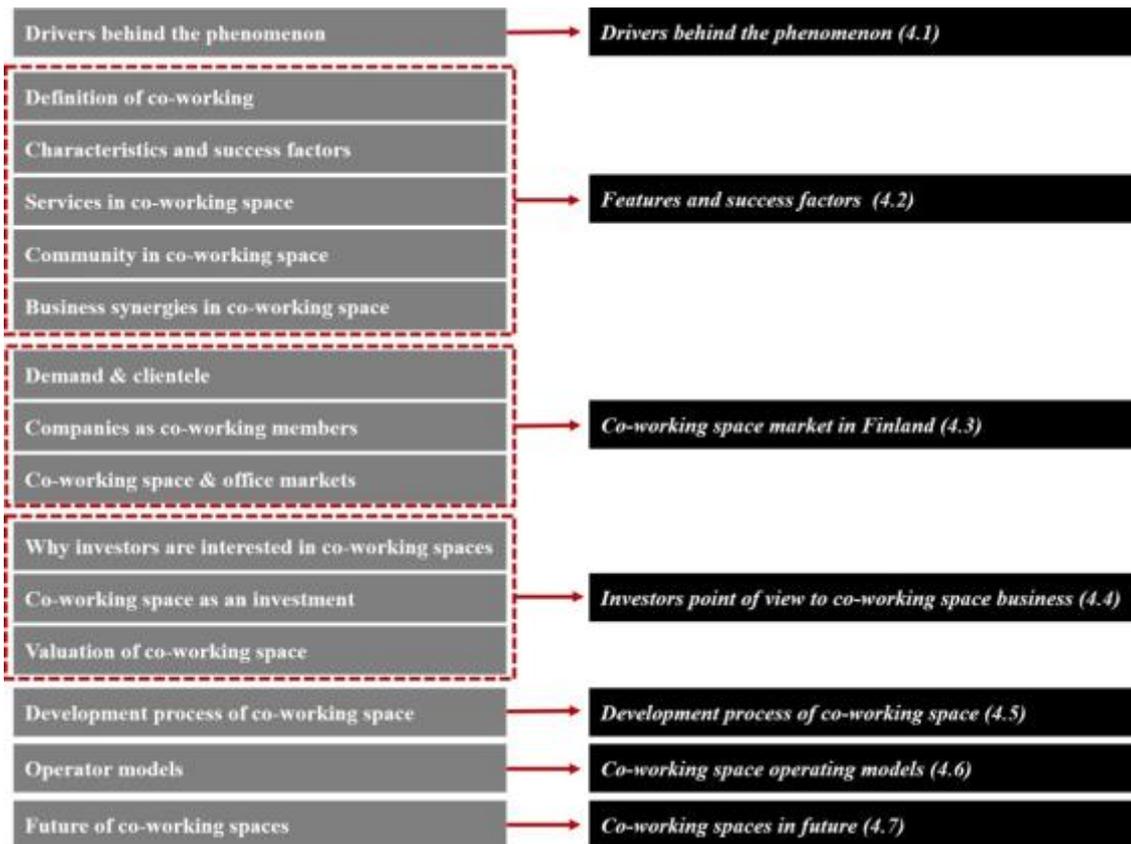


Figure 9 Classification of themes in data analysis process

4 Results

4.1 Drivers Behind the Co-Working Phenomenon

In order to understand the scale and framework of the co-working as a global and domestic phenomenon from the real estate business point of view, interviewees were requested to identify the key drivers behind the phenomenon. Answers of all interviewees correlated rather strongly and the results are summarised in the table 5 below.

Table 5: Identified key-drivers behind co-working phenomenon

<p>New Work</p> <ul style="list-style-type: none"> • Ways of working <ul style="list-style-type: none"> • Mobility • Remote working • Knowledge work, expertise • Team work, collaboration • Structure of employment <ul style="list-style-type: none"> • Contingent work • Multiple, networked employers • Outsourced consultancy 	<p>Fragmentation of Companies</p> <ul style="list-style-type: none"> • Increasing amount of small enterprises <ul style="list-style-type: none"> • Start up boom • Especially one-man companies and self-employment • Network of businesses <ul style="list-style-type: none"> • Outsourcing • Highly specialised expertise
<p>Changed Corporate Requirements</p> <ul style="list-style-type: none"> • Need for flexibility <ul style="list-style-type: none"> • Complexity of forecasting • Outsourcing • Efficiency, profitability and productivity <ul style="list-style-type: none"> • People, space and other production factors • Investing in work environment 	<p>New Dynamics</p> <ul style="list-style-type: none"> • Digitalisation and new technology <ul style="list-style-type: none"> • Development • New dimension of space • 24/7 culture • Sharing/platform economy • Servitization • New generations

Contingent work in this context is positive and voluntary matter, despite its typically negative echo, and it indicates the chained nature of future employments that also employees value due flexibility, freedom and versatility. Many of the interviewees predicted that the next generation(s) do not value permanent, long term employments as high as traditionally in history.

All of the interviewees identified the fragmentation of companies as one of the main drivers behind the growing co-working business, as it automatically results increased demand of smaller office space units when the headcount of a single company is smaller. Three of the seven interviewees separately highlighted the effect of growing amount and popularity of self-employment, as such individuals lack automatically (company-based) work community.

Even though start-up boom was also identified as an affecting trend to the co-working, it was not seen as a key driver behind the phenomenon. Start-ups, however, have recognised role in certain types of co-working spaces, such as accelerators and incubators.

Need for higher flexibility was seen as a result of complexity of forecasting and it refers to the constant change in nearly any field of business. Especially digitalisation, development

of technology and mergers and acquisitions were mentioned embodiments of the forecasting challenge. The flexibility requirement does not mean that companies necessarily have any kind of financial issues but the generally shorter time horizons instead.

As all of the participating investor organisations have office stock in their investment portfolio, they were able to identify that today’s commercial tenants are increasingly engaged to their workspace solutions, already in early development phase. Companies are willing to invest in their business premises in order to improve employee productivity, engagement and satisfaction. Additionally, companies increasingly recognise that the business premises are typically in top three item of expenditure in their cost structure and therefore such investment should be as profitable and efficient as any other. Even though higher space efficiency is one of the admired characteristics of modern office, the physical environments must simultaneously support different ways of working.

Digitalisation and technology were approached from two perspectives. On the other hand it enables higher flexibility and mobility in working, and on the hand its rapid development track and indefinable maximum potential leaves blind reservations for future possibilities.

Servitization was identified in most of the interviews and three of the interviewees attached the phenomenon additionally to the sharing/platform economy. Most of the interviewees saw that workplaces will have growing role as a service and the actual physical space has smaller role instead. Co-working spaces were reflected to the rising sharing/platform economy through comparison to Über, Airbnb and City Car Club.

Four of the interviewees mentioned new generations, especially millennials/generation Y, as new generations do not have the burden of old habits on their shoulders. New ways of working and native usage of technology are adapted already from school and transition to work life is less dramatic.

Table 6: Frequency of the identified drivers in the interviews

Driver	Identification frequency
Increasing amount of small enterprises	7
Increasing amount of self-employment	3
New ways of working	7
Complexity of forecasting	6
Higher demand for flexibility (in space use)	6
Servitization	5
Sharing/platform economy	3
Intensification of space use and business	4
Digitalisation and development of technology	3
New generations	4

Table 6 above, represents the frequency of each identified driver from all of the interviews. As interviewees could freely identify the drivers, without structured list or specifying questions, frequency below 7 does not necessarily indicate that some of the candidates would not agree with the statement.

The discussed drivers behind co-working phenomenon in the interviews are similar with the ones identified in the literature review section of this research. Especially Ahtela's (2016) listing of main features of future work is widely identical with the interview results.

4.2 Features and Success Factors of Co-Working Space

According to the interviews, co-working space does not have exhaustive definition in Finnish market practise. Instead, the definition tends to vary remarkably based on the context. That, however, was not seen to have negative impact to the business or co-working space market. Some of the interviewees estimated, that the strong and rapid growth of the phenomenon causes the eager use of the term as all players in the market want to benefit from the rising trend.

The main success factors identified by the interviewees are summarised in the table 7 and discussed further below.

Table 7: Identified success factors for co-working space

Success factors for co-working space	
Concept	<ul style="list-style-type: none"> • Clear, easy to understand • Selection of content and target group(s) • Good price-quality ratio and transparent pricing • Digital booking systems and applications, usability • Continuous development based on users' needs
Location	<ul style="list-style-type: none"> • Central location in main office hubs, easy to find • Good public transportation and other traffic connections • Vital area and buzz in the building • Close to university campus if possible
Workspace	<ul style="list-style-type: none"> • Enables and supports modern, mobile knowledge work • Comfort, ergonomics and visual appearance • Supporting spaces (meeting rooms, phone booths, kitchen, lounge, etc.)
Services	<ul style="list-style-type: none"> • Based on users' needs and modified accordingly • Choice of the right persons to operations • Provide equivalent services to convenient office
Community	<ul style="list-style-type: none"> • In one form or another (such as good spirit, business synergies, network, friendships) • Role of each individual member and member organisation
Network	<ul style="list-style-type: none"> • Enables mobile multi-locational work • High quality workspace solutions follows the worker

The requirements for physical attributes of co-working space were quite similar and basic approach was open plan office space with supporting spaces, such as negotiation rooms, phone booths, and café or kitchen. Workstations can be partly dedicated and partly under free seating policy, but some private lockers or equivalent storage system were appreciated.

Most of the interviewees approached the physical space as a secondary matter. However, one interviewee challenged that approach and put value also for the physical appearance of the space by saying:

Well, also the spaces are different comparing to the regular offices and it highlights strongly the un-corporate way of working. The physical space expresses also the working itself in completely different way.

More than as a physical space, co-working was seen mostly as a service which is combination of user-services, business synergies, and community. Further, service concept of each co-working space was seen as the main divider between different providers and one of the interviewees defined commercial co-working space business as running transactional service business in which sales is in essential role.

The supply of services in co-working space was discussed in the interviews roughly from two approaches: form and content of the service. All investor representatives saw that the co-working space as a service complex personifies strongly to the personnel of the space. Especially the role of the co-working space host was highlighted as it is considered much wider than running daily practicalities and administration of the space.

Part of the interviewees had questioned the actual need for space host during the development process of their co-working space concept but the necessity was realised in early stage. It was also seen very important that the designated host is not outsourced service, but in-house resource instead. That is in connection to the underdevelopment of Finnish co-working space market due which the co-working space concept must be rapidly modified based on daily formal and informal feedback from the members/users of the space. One of the interviewees defined the role of space host closer to practical customer service and guidance instead of in-depth resource of hospitality. Also in this approach the borderline was that customers are taken care of and the use of co-working space is seamless and trouble-free.

Many of the interviewees also considered outsourcing of the space host as a possible option in later stages of the development process of the co-working space concept. The selection process of and differences between operating models are further discussed in section 4.5.

The content of the service offering was also typically divided into two categories: bundle of user services and co-working space concept as a service. All interviewees saw that the most important feature of any selected bundle of user services is to ensure that all fundamentals of today's office environment are covered. Infrastructure and connections for ICT and physical features of each work station and supporting spaces, such as meeting rooms and phone booths, were typically in focus.

One of the interviewees summarised the service focus like this:

It [the co-working space] is not a show producer or amusement park, but the service offering hasn't been completely disdained either. Our starting point was that the location must be in innovative and living area, and basics must be taken care of: There must be fast wireless network, printing etc. readiness - and good coffee. That's all it needs.

On the whole, most of the interviewees were sceptical towards service offering too focused on other than directly office and business related matters. Co-working spaces were strongly considered as a serious place to work and some of the interviewees' clients had changed to their co-working space as the previous co-working space had focused too much to irrelevant aspects instead of creating environment for business.

One interviewee phrased the issue as:

In my opinion, the core thing is not to compete by choosing whether to sell the popcorn with or without cheese coating.

Additionally, part of the interviewees also considered cross selling of services as a crucial part or even a necessity for successful and profitable co-working business. Few demanded that in order to succeed, co-working space must take risks in selection of service offering or otherwise the full potential of the concept would not necessarily be harnessed.

Despite the differing perspectives to the need for creativity of the services, all interviewees agreed that the bundle of services must be modified to serve the unique combination of members. Continuous development process of service offering was also often linked to the importance of co-working space host, without whom it would be impossible to response to the continuously changing demand.

In addition to typical office services, many interviewees saw beneficial to include also expert services, such as IT support, legal advisory or accounting, to the service offering in order to support the actual business of the co-working space members. Naturally, this kind of services can be provided by the co-working community as the member organisations can find clients and business partners within the co-working community.

Especially two of the interviewees approached the entire co-working space concept as a service. One of them saw that the role of the co-working space is strongly connected to developing the business of member organisations, typically start-ups. Co-working space type in this application is close to business accelerator or incubator, and the focus is in coaching and providing tools to the growing businesses. Such service does not set specific requirements for the physical space but exploits the networks of people and small businesses. According to that interview, members basically buy partnerships from start-up centre, in which coaching, members, and their businesses rotate continuously.

Another approach to the co-working space as a service was based on separating the co-working space business completely from the investment business. This interviewee phrased the matter as follows:

For us this [co-working space] is not an investment by any means. This is not even on the same line with rents in the turnover. This has nothing to do with the rents. -- This is like a service, we sell memberships. It's the same thing as

gym selling memberships. No one calls that a real estate investment business, it's a service among other services.

Although only two interviewees approached co-working space more strongly as a service, neither did the other interviewees disagree with that. Especially the membership approach was discussed in all interviews as it is remarkably different from the traditional office lease which guarantees certain defined space for the rent.

Also events were widely identified as a good and profitable form of service in co-working space. Especially business related events focusing on training and business synergies were often appreciated during the interviews. On the other hand, unofficial social events were seen challenging, as people tend to have their own social network on place outside the work life. Interviewees put more value on facilitating the collaboration between members and organisations and trusted that possible personal relations carry themselves better naturally without external artificial structures.

Business networking was seen important deliverable of the co-working space. One of the interviewees figured, that networking is not only on small businesses' agenda, but also for larger companies, and in the future everyone needs to put effort on that. Two out of the three investors with own co-working space concept emphasised the importance of the business synergies as one of the main drivers for the co-working space. With current track record, few partnerships or shared projects had been carried out by co-working space member organisations and at least one member had been recruited from one organisation to another within the co-working space community. Co-working spaces were also seen as an efficient growth platform for companies to grow and hire new employees.

Interviewees reflected the potential and framework of business synergies in co-working space to co-working spaces they had visited abroad. Based on their experience, some of the larger co-working space units in Europe have been able to create such a vital communities that member organisations are able to find new clients and business partners within the same co-working space. Additionally, business synergies were identified not only between the member organisations but also towards the supporting organisations, such as investors, sponsors, and business coaches of start-up accelerators.

Role of the co-working space host was seen to stretch also to connecting and bringing together right businesses within the pool of members. One of the interviewees even indicated that these encounters should not be considered as the responsibility of the member organisations, but as part of the co-working space service instead. Then again, one of the interviewees had doubtful view towards the role of the business synergies and saw that co-working space members might occasionally carry out projects, but there is and will not be goal-oriented alliances.

Importance of the space host came repeatedly up in discussions concerning the community aspect of co-working space as in creating solid foundation for the sense of community and relationships between members. However, community is always sum of its members and the sense of community varies along the ensemble of individuals.

All interviewees agreed that the sense of community is part of the co-working, though the importance of the matter varied between interviews. Community was considered as the single main attribute that separates not only one co-working space from another, but also co-

working spaces in general from other optional workspace concepts. Additionally, established community was seen beneficial for the operator as a strong sense of community engages members to certain co-working space as especially self-employed members often seek community to otherwise isolated working from co-working spaces. Stable member portfolio and lower rotation levels decreases the pressure for sales from operator perspective.

In most of the interviews Finnish mentality and personality was identified as a challenge for adapting the co-working phenomenon in same extent as in other cultures (e.g. in Sweden), if not completely at least slower. That was explained by a rather stereotypic approach to Finnish state of mind in which privacy, private space, and dominating introvert characteristics limit the readiness for commerce.

As a conclusion to the interviewees' insights to the sense of community in the co-working spaces in Finland it could be stated that there is no certain definition. Instead, the community aspects vary between co-working spaces case by case as some organisations and individuals appreciate it more than others. However, one of the interviewees concluded that co-working spaces should not have extensive list of rules for members, except one:

Every time you meet someone you don't already know, introduce yourself and your business.

The analogy between co-working space and office hotel was discussed in all interviews. Two of the interviewees argued rather strongly, that the current co-working space offering in Finland, especially in case of larger units, is as a matter of fact reproduction of typical office hotel only with somewhat larger open office area. In their opinion, few hundred square meters of co-working space with multiple amount of small office rooms does not set concept in question apart from traditional office hotel.

That statement refers to the structure where considerable part of the co-working space complex is dedicated to the private use of certain organisations instead of full mobility of members in all areas of the space complex. Private, dedicated areas are necessary due to the limited size of the co-working space market, as the volume of co-working sales is not sufficient (yet) for profitable business, and therefore private small offices practically fund the co-working.

One of the interviewees put it as follows:

One can call such concept co-working, but I would call it old fashioned office hotel. I think it's the same god damn thing. Co-working is not financially profitable unit in case the concept is not build to offer the private space as well. For a certainty, it's not.

Another interviewee saw instead that the physical space layout in a co-working space can be rather similar with traditional office hotel but simultaneously, the two concepts can be fully or partly different. The main difference comes from the community and different approaches to working in general through providing space as a service. Interviewee summarised the relationships of these two concepts in reflection to the market in this way:

Surely there has been crowd, even a large one, fully satisfied with office hotels. But we identified that there's also large crowd seeking for something

completely new way of doing. And I think that was also the key for the success of co-working spaces globally. – There [in co-working space] is a different way to work. It brings easiness, but also stimulates the working itself.

Instead of optional or competing concepts, co-working spaces and office hotels were also seen as different stages in the evolution of small offices. One of the interviewees formed timeline from the market entry of business parks through office hotels to co-working. Along that metamorphosis, single space unit size has decreased (small office space - single office room - single work station) and on the other hand the flexibility and collaboration have increased. Common denominator of all the three stages is the increasing amount of ever more smaller companies that still require up-to-date office facilities and services.

In relation to literature review, the results from the interviews concerning the features and success factors of co-working space are somewhat similar. Especially, user services, hospitality, and collaboration within co-working space were emphasised in both. Additionally, both literature and interviews point out that definition of co-working space either as a physical environment or service concept is not unambiguous but instead, it depends on the application and framework.

4.3 Co-Working Space Market in Finland

Co-working space market in Finland was described in all interviews as rapidly growing, but raw and undeveloped as well. Although the market has expanded from abroad, it is not directly based on a well-formed demand, but the supply in its many forms has been created first instead. Therefore, many of the interviewees saw that the market requires education about the content, benefits, and ideology of co-working spaces. For example, instead of selling the characteristics and benefits of their co-working space in comparison to other co-working space options, operators must sell the idea and concept of co-working in general first. Due to instability of the market, most of the interviewees had moderate expectations for the rate of return for the first operating years of the co-working spaces.

Main characteristics of the market are high volatility, especially due short maturity of contracts (months, weeks or even days) and typically lack of rental guarantees. Therefore, in comparison to regular office market, acting in the co-working space market requires tolerance for uncertainty. However, there was strong consensus across the interviews that the unit sizes of single co-working spaces are such moderate in relation to the entire office portfolio or even that specific office building that the riskiness of the high volatility and uncertainty is very marginal.

All interviewees had recognised significant growth potential for the Finnish co-working space market also in future, especially in comparison to the market growth in the rest of the Europe. Estimation of the saturation point of the market was too early to indicate at this point, as the development of the market to its full potential was expected to take several years.

Most of the interviewees stated, that the culmination point of the market will be set, when at least one of the large international or global operators expand to Finland. Interviewees saw that extremely probable during next few years. One of the interviewees put it this way:

It's only question of time when WeWork or equivalent international operator starts their business in Finland. There's no reason for them to suddenly pass

Finland in their expansion. It's hard to tell how and with whom they'll do it, but it's really likely that they will.

Nevertheless, interviewees welcomed also large international competitor(s) to Finland, as it was seen beneficial to the entire co-working space market as a large operator would be good spokesperson for the overall concept of co-working space, which would be cut out for increasing demand. Additionally, few interviewees stated that as in other business as well, competition will force everyone to strive for continuous development and higher quality, without possibility to settle halfway.

Interviewees were generally surprised that the current providers of more established co-working spaces are the real estate investors, also in operating side. As stated above, the volume of the co-working space is such small fraction of the entire portfolio mass of any of the investors. Therefore, some of the interviewees had had concerns whether the market will be competed purely by pricing as there is no substantive need for creating profitable business through co-working spaces, but improve corporate image instead. That phenomenon had not been noticed, which was seen as an indication of a healthy market for co-working spaces. Investors' interest towards the co-working spaces is further discussed in section 4.4.

As the main competitors for co-working spaces (in addition to other co-working spaces), interviewees identified following:

- Office hotels (see section 4.2)
- Cheaper traditional offices (in lower grade buildings and locations)
- Public sector's alternative options, often free of charge (e.g. libraries, incubators)
- Third places (e.g. coffee shops, restaurants, transportation vehicles and terminals)

However, most of the interviewees saw that on a fundamental level, co-working space serves different client segment than the one searching for the absolutely cheapest space option from the market. Moreover, interviewees felt that co-working is a solution for demand that has been hidden beneath. One of the interviewees put it this way in comparison to the already existing office hotel market:

Surely, we've had these office hotels, also larger international brands, which have provided the best possible offering available. That hasn't clearly satisfied all and there has been clear market gap. -- Now also small companies have truly interesting, well certainly office hotels have been smart as well but still, concepts that haven't been available earlier.

None of the interviewees saw co-working space as a risk or challenge to the traditional office market, but as a natural continuum, extension, and opportunity instead. Part of the interviewees reserved option for its future role when the co-working space market has reached its full potential and the drivers behind it, such as new ways of working, are more established. None of the interviewees estimated that the practicalities and fundamentals of co-working space market would directly have notable effect to the traditional office market practises. Moreover, everyone saw that co-working space boom and on-going revolution of the traditional office market are results of same larger scale phenomena and trends (see section 4.1).

The selling process of co-working space was seen challenging, as contrary to the traditional rental office market, co-working spaces are not place to acquire square meters but memberships instead. When converting price per membership into price per square meter, co-working space typically tends to be substantially more expensive than directly leasing traditional office space by cost per square meter approach. On the other hand, membership include wide range of services and added value whereas by office rent tenant have only the empty space. Interviewees saw, that the borderline of the described difference always culminates to which factors the tenant values the most. Co-working space is not universal tool to automatically deliver added value to any individual or business.

Simultaneously, occupier organisations increasingly focus on cost per workstation or cost per employee, instead of cost per square meter also in traditional office leasing. Additionally, organisations are putting higher value to the workspace and approach it as a factor of production that also must be productive and efficiently used. Several interviewees also had recognised that the rental office market increasingly requires consultant role from the landlords already during the planning and negotiation process in lease transaction. Therefore, membership pricing and the traditional rent pricing are likely to be continuously closer to each other in the future.

Strength of the co-working space market from landlord perspective is the possibility to digitalise the entire transaction process based on for example tailored web-platform or mobile applications. The digitalisation is integral as the leasing process of small (less than 100 square meters) office unit tends to take the same time as leasing process of larger (around 1,000 square meters). When this can be automatized and simultaneously the market of small office users can be served, the usage of landlord's/investor's resources will be remarkably more efficient.

Additionally, all interviewees also strongly denied role of co-working space as a solution for record-breaking office space vacancy rates in Finland. Quite the contrary, one of the interviewees anticipated that high quality office spaces that are occupied or the vacancy is otherwise low and temporary in its nature must be converted into co-working space in some extent as the market grows. Another interviewee saw that the current approximate of 1 million vacant office square meters in Helsinki Metropolitan Area will turn into 2 million vacant office square meters due to the increased demand for small offices caused by the revolution in ways of working in case investors will not expand their office supply to the co-working spaces as well.

The existing literature tend to approach co-working space supply mainly provided by smaller independent providers in volume instead of fully commercial business. That is likely to be result from the origin of the co-working space ideology from private self-managed communities. Additionally, investor approach was not further discussed in the found literature whereas in the interviews the strong focus was on fully commercial co-working spaces. Although the largest co-working spaces in Finland are commercial and most of them are currently operated by investors' own concepts, there is still wider supply of different kinds of co-working space types also in Finland, varying from private to public and profit to non-profit (Kojo & Nenonen 2016).

4.3.1 Clientele and Target Groups For Co-Working Space

Interviewees shared insight that working in a co-working space is not dependent on the field of business but instead the state of mind and cultural readiness of the individual members

and the member organisations. Based on current experience, the group of members is most of all heterogenic. Typically, co-working space member does expertise requiring knowledge work and the representative work profile samples are consultants and sales agents. Additionally, work is often multi-locational or requires otherwise mobility. Contrary to expectations, trendy hipsters from creative fields of business are more infrequent sight at a co-working space in Finland than basic engineers.

In addition to completing the market supply of small office space units, co-working spaces were often seen as a stepping stone product, through which space providers can create relationship and further, gain better position when the organisation potentially grows out grows the co-working space to larger, private office premises. Co-working space model enables life cycle from single workstations to private office units (traditional office hotel size range), but from investor perspective also to the larger private office units of hundreds of square meters. As for all office investors the rent cash inflow captures the profitability, good long-term relationship with growing tenant prospects is necessity within small but competed market.

One of the interviewees, emphasised co-working space as important supplementary service for their existing client portfolio. Instead of approaching co-working space as a stepping stone to larger space units, to this organisation co-working space was beneficial product for additional up/cross selling for organisations which already have leased larger fixed office premises. Another interviewee disagreed rather strongly by stating that co-working space is particularly access product to external office space of small companies or self-employers. In all these cases, the goal is to grow and stabilise the business up to the level in which it enables private office space. However, also the private space can be located within co-working space or office hotel. In this approach choosing co-working space is before anything a budget matter.

One of the interviewees identified three following core customer groups within the current co-working space market: self-employers, small businesses of headcount less than ten (including start-ups) and more established companies whose space need varies continuously from project to project. Also all the other interviewees agreed that constituent part of the co-working space members have self-employer or small business background.

However, the target group definition instead, especially for the future, varied partly even substantially. For one interviewee start-ups were clearly the core target group as the co-working space is in that approach basically service itself and the main driver to choose co-working space as a location wells from the business accelerating coaching, networking, and financing services of the space. Three interviewees put the stabile and established companies in the focus of their target group and one of them summarised it as follows:

This [co-working space] is not really a product for start-ups or self-employers, but instead this is product for large companies. -- Target group of this product must be solvent but flexible and efficient companies who experience the monthly fee as a reasonable pricing and further, affordable in comparison to private office room somewhere else as long as they also get some sense of community, well-functioning infrastructure, and perhaps a more comfortable environment.

Simultaneously, according to the same interviewee, targeted marketing to that specified target group has not yet been started as the co-working concept is in early stage of development. Repeatedly discussed additional approach to the target group of established companies was co-working space as a platform to set up satellite office for organisations expanding their business to new locations, either nationally or internationally. Satellite office in co-working space has light structure from the occupier organisation’s perspective and turnkey product enables to channel all resources to the core business instead of finding and setting up business premises. Additionally, in many satellite offices the head count of personnel is typically really low. The latter approach is again very typical client segment for traditional office hotels.

In literature, the clientele and target groups for co-working space was mainly recognised to vary based on the profile of the co-working space. Similar logic was identified from the interviews, the borderline being that the clientele of co-working spaces is rather heterogenic at least in Finland. However, the demand process can be seen similar to the derived demand chain of business premises by Olkkonen et al (1997), but as discussed along the drivers behind the co-working phenomenon, the changed space need is not necessarily driven by production decision anymore, but the changing business structures and Servitization.

Few interviewees highlighted the importance of network of co-working space and from that perspective also the core target group was companies, in all size ranges, that have mobile workers, such as consultants or sales representatives. As this work profile travels plenty between possible satellite offices, but also to premises of clients and partners requiring high-quality office set up also outside the main office of the organisation.

4.3.2 Corporate Organisations As Co-Working Space Users

Corporate organisations in co-working space market were approached in the interviews from three perspectives: as users of external co-working spaces, engagers of co-working as an internal space concept in their private offices, and as an in-house or external co-working space providers. This structure is presented in the Table 8, and discussed in more detail below.

Table 8: Corporate organisations in co-working space market

Corporate organisations in co-working space market		
Co-working space member	Co-working as a concept	Co-working space provider
<ul style="list-style-type: none"> • Satellite office • Buffer space • Optional location for remote work • Extended office for mobile workers 	<ul style="list-style-type: none"> • Re-naming existing concepts (e.g. ABW) • Future concepts (under development) 	<ul style="list-style-type: none"> • Within private office premises • In external location • Invocation of surplus space (substitute for sub-leasing)

Corporate organisations were identified to use external co-working spaces for four different need: satellite office, buffer space for the main office, optional location for remote work, and extension for the main office for mobile workers. Satellite office means situation in which company is expanding its services to new area and wants to locate human resources in that location. Satellite offices can be set up nationally or internationally. Buffer space serves such

organisations whose head count varies notably in short term, for instance due project work to which external resources are hired temporarily but repeatedly. According to the interviewees co-working spaces and office hotels are used as an optional location for remote workers widely internationally, especially in U.S. As part of the labour tends to be located distant from the business centres and remote working from home is not in all cases desired permanent solution or even possible to arrange. Additionally, organisations can attract best talents with possibility to have both modern workplace outside home and avoid daily commuting, or moving far away. As discussed earlier, co-working space serves as an extension of the office for the mobile workers, when such resources are e.g. at events or client meetings etc.

Many of the interviewees had experienced that corporate organisations have growing demand for office concept that simulates co-working but only in organisation's private premises. One of the interviewees phrased that few of their portfolio's larger tenants had asked whether landlord's co-working space concept could be re-constructed in their office. However, as an internal office concept, co-working as such does not differ from the currently popular Activity Based Working (ABW), and therefore interviewees were hesitant whether nominating internal concepts as co-working would have any practical effect to the space. Instead, several interviewees estimated that the co-working trend will spawn new concepts and solutions for private offices of corporate users. Although interviewees were neutral for loose usage of the term co-working in general, they did not see beneficial or representative to call those new concepts co-working.

Interviewees had also recognised corporate organisations as a co-working space providers. Even though the model is more common in U.S. and elsewhere in Europe, also few samples were highlighted from Finland. Few of the interviewees estimated that this phenomenon will become more common in the future as well, as all size of companies must be updated on the recent market trends and innovations of their fields of business and in close co-operation with also smaller businesses.

Corporate organisations were identified to provide co-working space both within their own private business premises (in dedicated areas) and externally in remote hubs. Typical reasoning for corporate oriented co-working space was to act as a start-up accelerator and ability to identify and hire best talents or future partners. Additionally it was seen possible to set up co-working space within surplus office space to decrease the costs. However, in such case traditional sub-leasing was seen more convenient solution to most of the organisations.

Regardless of whether the corporate organisation uses external co-working space or adapts co-working as an internal workspace concept, interviewees highlighted that the change requires harnessing and thorough engagement of the entire organisation from management to HR and IT, not to mention the employees. One of the interviewees told that corporate organisations have been surprisingly well aware of the entire co-working concept and many of the organisations have self-driven demand for the service.

Also, all interviewees agreed that the need for flexible elements in office leasing will only increase in future, mainly due to the challenge of forecasting in longer horizon. One of the interviewees indicated that within certain period of time, all companies might have standard requirement for up to 30% of alternative flexible space solution, such as co-working space memberships, for their business premises entity. Another interviewee summarised that ways

of working in all companies, regardless of the size, will move towards co-working by one way or another.

Both literature and interviews identified corporate organisations as an important client segment for co-working spaces, especially in future. Classification of the possible co-working space roles of corporate organisation in Figure 2 by JLL (2016) and in interview summary Table 8 are nearly identical by content. The only main difference is at whether to separate co-working spaces provided by corporate organisations within their private premises or in external premises. Interviewees, however, were more confident that corporate organisations will have more flexible workspace solutions, such as co-working spaces, as a permanent part of their corporate real estate portfolio. Not only for occasional use as more often proposed in the literature.

4.4 Investor Point of View to Co-Working Space Business

Most of the interviewees saw that one of the main drivers for expanding to the co-working business, by one way or another, was the large customer segment that was not served by any product or service. Further, that market gap was not only missed within interviewees' own service and space portfolios but also partly completely in the local market. These identified customers are the increasing amount of small companies and self-employers that have been discussed earlier in chapter four. Similar trend has also been seen within larger tenant organisations in the market and it is expected that the future lease agreements will include increasing amount of flexible factors for the tenant, such as certain percentage of co-working space.

Additionally, as discussed for years in the commercial real estate business, the digital revolution of the real estate transactions for both lease and acquisition is giving stronger indications. As the only certain fact is the change, but not the form of it, all players on the market find it important to prepare for the becoming change in order not to lose track in future either.

From the office market perspective, major changes in trends of both tenant organisations in all size ranges and the overall transactional market dynamics have such significant general effect when realised that especially investors are challenged to be prepared. Also, many of the interviewees reminded that history has taught that when certain trend expands globally and successfully to large markets, it rarely is beneficial nor profitable to disdain it. As one of the interviewees summarised the current situation:

Basically, you either think of it, or you cry and think of it.

Another interviewee united with the vision by stating:

I find that if one decides to own properties, those should also be taken care of properly. And that, in my opinion, includes that one must react and try to live in the surrounding world. I would recommend rather anticipate or at least try to keep phase with. And that requires taking this [co-working] seriously.

The interviewee compared also the thematic of co-working spaces as an investment to the environmental certificates as follows:

I think it's quite same as the attitude towards the environmental certificates or sustainability. I don't believe anyone pays that much more rent for the certified offices or that many would pay premium for the certifications in purchase of the building. But I do believe that one can find tenants and buyers to the certified buildings and in that case it isn't about gaining anything extra, it's about losing less.

In conclusion, investors are seriously interested in co-working spaces as they expect changes that are drastic but obscure in content and want to be well-prepared for that.

4.4.1 Co-Working Space as an Investment

Based on the interviews, every office investor is or will soon be interested in including co-working space to their portfolio and space offering as the drivers behind the phenomenon are such extensive and multidimensional that they affect to everyone. However, the selected form of delivery chain and operating model (latter is discussed further in section 4.6) will vary based on the investor profile in two different ways. Firstly, most of the interviewees identified more traditional investment fundamentals, such as investment strategy and structure of the investor organisation, which affect further to the time span, risk capacity, investment volume, and possible legislation based regulations. Secondly, many of the interviewees also mentioned the willingness and competence of the investor, which typically originates from the key decision-makers and the organisation culture.

The lease maturities have become shorter in Finnish office rental market during the past years, and the interviewees expect that trend to only increase in future as the tenants' requirements for the premises and the expectations for the future are developing as discussed earlier. Despite, the office premises must still be renovated and tailored for each tenant's needs in the beginning of the lease. Additionally, the office space is typically vacant minimum during the renovation but typically at least some months before new tenants are found. During that time, the cash flow of the space is negative, as the operating expenses (OPEX) run constantly also for the empty space units. Depending on the rental market conditions, landlords compete more or less for the same tenants, and therefore additional tenant incentives may be included in the lease agreement, such as rent free periods. As the write-off periods shortens due to the shorter lease maturities, higher share of the above mentioned items of expenditures will be capitalised as landlords' loss, which in turn weakens the investment case of the office premises. According to the investors, few years ago sale and leasebacks of larger office buildings with long lease maturities balanced the office portfolio against the faster rotation of smaller office units and their cost structure. Sale and lease back trend has withdrawn from Finland, and as those leases start to expire, office investors will have increasing amount of vacant office space to manage in changed operation environment.

Based on these above mentioned fundamentals, investors considered co-working space as a good and profitable option for traditional office also investment and business wise. Naturally, also the co-working space will require even extensive investments depending of the initial situation of the building. That investment, however, serves the co-working space unit longer as the rotation of co-working space members does not require new fit out to the premises. In the long term, co-working space will require less capital expenditures (CAPEX), as several tailored tenant fit outs are replaced with one full refurbishment and few face lifts at need, which can also be carried out without even temporarily closing the co-

working space and therefore interrupting the cash inflow. On the other hand, the operating costs (OPEX) were considered notably higher than in regular offices as the membership includes more additional deliverables and services than traditional leases of private office space.

In comparison to traditional office leases, interviewees saw co-working space potential business model and competitor for office lease in profitability. One particular benefit of the co-working space business is that one workstation can be sold with certain coefficient (>1) and the space can be structurally overbooked as only part of the workstations in the space, if none, are in dedicated use and it can be fairly assumed that not all members are present at the co-working space simultaneously. As for a square meter of traditional office can be leased only once for the certain moment of time as the entire space unit is in dedicated private use of single tenant.

One of the interviewees phrased the co-working business potential as follows:

Of course it can be profitable business, it definitely has potential! There are also elements in comparison to the traditional leasing that in case you have flexible memberships, you can always sell the same seats with a small multiplier. As the seats aren't dedicated to anyone, the approach might increase the earnings. In case the concept sells really well, co-working can result even high profits.

Though, the interviewees recognised that success of co-working space requires also efficient sales and marketing system, as the business is such strongly bound to the volume unlike in traditional office lease. However, the interviewees saw that the timing and occurrence of cash in- and outflows of the co-working space differ somewhat from the office and therefore, the required rate of return is lower for the first one to three years for co-working space than office, but higher in the long horizon as the CAPEX structure is lighter and the member clientele is established.

Most of the investors indicated, that the timespan for the co-working space as an investment is long, especially in the local Finnish market which is still in early phase of development. Therefore, it would be impossible to analyse the profitability of the market before it has reached its full potential and further, investing in co-working spaces at this point would not be feasible in case the investor would not be engaged to the entire trajectory. One of the interviewees stated, that in their co-working location(s), co-working is considered as permanent phenomenon and managed accordingly, which indicates the role of co-working space in their office portfolio also in the future. Further, investors had also carried out all the preliminary profitability and investment calculations against long-term investment horizon which reflects the commitment to the new business line.

None of the investors saw that co-working space captured particularly higher risk than typical office investment. Quite the contrary, as one of the interviewees put it:

I don't see any special risk attached to it. Risk is that the office premises will empty and I would say that co-working spaces are an opportunity. Without putting up co-working spaces, we can be sure that the office spaces will be vacant soon.

Low riskiness was mainly explained by the fact that the current volume of single co-working space is currently only a small fraction of the total office portfolio of each of the investors, and co-working space is mainly seen as a one of the lease agreements in rent roll. Resulting that even though the space would be fully vacant for even a longer period of time, the running costs would not have dramatic effect to the overall investment. On the other hand, co-working space is relatively likely to generate at least some level of positive cash flow and therefore beat completely vacant office space. Although the co-working space requires investing in full fit out of the space, co-working space is nevertheless fundamentally modern office space. Thus, if the co-working concept would not success at all, the space can be rather easily converted to traditional office space for regular tenants instead of co-working memberships, or otherwise the location decisions has not been successful or the rental market stalls otherwise.

Yet, investors agreed that there is a risk for vacancy also for the co-working space, in case the concept is not clear and in line with market demand, or the sales efforts are poorly coordinated. The major problem with high vacancy in a co-working space is the heavy cost structure of additional services and content in comparison to traditional office space, or even a business park where the pressure is allocated to number of smaller office blocks.

Especially time horizon and risks were identified as the most significant matters when considering the different investor profiles and further, investment strategies. For example, real estate funds are tied to their exit plan and the primary aim is to maximise the value at the time of exit, instead of developing the fund's assets in longer term. Additionally, few of the interviewees stated that cash flow of co-working space is really difficult to sell to developers and construction firms. The main watershed is whether the investor is gathering tenants to the office stock to keep them (long term investor) or to get rid of them (short term investor).

Although co-working space is not necessarily a significant risk to any larger investor, the nature of co-working may be risky for certain investment profiles. That was identified to be dependant of the origin of the invested funds and possible regulations of the investor. For example, in case investor is operating with public funds, investor's self-operated co-working space would be dubious and challenging to justify. Additionally, as the highest risk of co-working space is for all investors in the inefficient sales efforts, not all investor organisations have the sufficient resources for successfully manage the co-working space, whereas traditional offices could simultaneously be leased to good effect. However, interviewees saw that all office investor profiles should still include co-working in their portfolios for instance through external operator as a tenant or a service provider partner in the office building(s). The operating models are discussed further in section 4.6.

4.4.2 Role of the Co-Working Space in the Investment Portfolio

Above all, investors considered co-working space to have future role in their office portfolios. Interviewees were reluctant to give any insight to the realisation form of the future role at this early stage of the developing market. One substantive issue is, whether the value of the co-working space will be created and added to the buildings they locate in or the concept and brand they are based instead.

Another clear role identified for co-working space by nearly all interviewees was stepping stone product for expanding companies that are potential future tenants. Only one of the interviewees, who considered network to be the key success factor for prosperous co-

working space, did not highlight the stepping stone product approach, but neither fully denied it either.

Thirdly, few interviewees identified co-working spaces' effect to the investors' brand and image to be one of the main roles for co-working space in portfolios and reasons to invest in. In this approach, interviewees saw that the motivation to invest in brand and image is to ensure current and potential tenant organisation of investors' ability to deliver modern and flexible space solutions, and respond to the more complex demand from the office users. Two of the interviewees argued that investing directly in co-working space is not crucial or valuable for investors but instead, having high-profile operator in their multi-tenant office locations or business parks will be that, increasingly in the future.

4.4.3 Valuation of a Co-Working Space

Interviewees saw that valuation of co-working spaces is interesting topic and challenging to give exhaustive definition for correct approach. However, interviewees did not see valuation challenges as a noteworthy risk to any such investor who would otherwise be able to invest in co-working space. Naturally, certain investor profiles or investment strategies are likely to be more concerned about the possible effect on valuation of the property, but such investors would end up in partnership with an external operator also for other reasons.

Despite the certain nature of volatility and irregularity, interviewees argued that especially as far as the portion of co-working space in the entire valued property, let alone portfolio, is in as moderate level as it currently is, the actual risks do not differ from traditional office space with rolling lease until further notice. Nevertheless, co-working space generates not only cash inflow but also primarily net yield. As one of the interviewees put this:

From the volume perspective, co-working doesn't swing our numbers to one way or another, at least for now. But in case it works well and we'll get it nicely set up, it could result that we could earn a bit more money. And as said, if not more money, at least some.

Where office space under longer lease can set certain guarantee of continuous cash flow, co-working space can diversify the cash flow and simultaneously set guarantee of certain cash flow, though smaller. Additional benefit of co-working space in comparison to traditional office is that the space is not either vacant or occupied and certainly some time vacant in between the contracts. Instead, co-working space can paradoxically be in between vacant and occupied at all times, generating continuous, though not constant, cash flow.

Especially interesting for the interviewees was to see how the property valuation branch will outline and take a stand of valuation methods and principles of co-working spaces both globally and in Finland. Few of the interviewees indicated that Finland is likely to be untypical market as relatively many of the co-working spaces are at least currently also operated by the investors instead of external operators, which is in turn is more common in other markets. Many of the interviewees thought that the track record of co-working space will set the benchmark for each valuation. However, due to the raw co-working space market, most of the co-working spaces and concepts in Finland have currently only short track record, if none, and therefore the valuation must be based on other factors for some time.

Additionally, interviewees were unsure whether the value of co-working space will be seen as a part of the building or property, but the co-working space concept or brand instead. In latter case, the co-working space would likely be valued based on the short maturities and as one of the many lease contracts of the valued asset. In that case it was seen interesting whether external operator under long lease is automatically concerned more valuable than owner-operated co-working space despite the actual profitability.

The interviewees assumed that the major question is, how and where the risk will be priced in the valuation. Investors speculated vacancy rate, rent level and yield assumptions. Though, a coherent market practise for the valuation is expected, as the volume and number of co-working spaces is expected to increase, and application of traditional office valuation methods based on straight-forward analysis of current lease agreements would not be sustainable solution anymore in the future.

4.5 Development Process of a Co-Working Space

Investor's profile and investment strategy were seen crucial also in the selection of the operating model and development of co-working space. Many of the interviewees said that they had had thorough internal discussions across their organisation about what possibilities they have in general when considering for example their profile and image in the market. Can professional real estate investor be seriously converted into co-working space operator, or can large real estate investor be tenant and operate co-working space elsewhere than in their own properties?

Additionally organisation, management, and business logic were identified as loaded characteristics when concerning the fundamental abilities of investor to act as a co-working space operator. As the phenomenon is new and business rather unknown, success in co-working space pilot requires a lot from the people behind the project and old ways of thinking must be challenged also internally as the mechanisms of traditional leasing do not apply.

Interviewees representing one of the largest real estate investors in Finland were on the same mind that large investors have clear responsibility and even obligation to develop not only their properties, but also the market and make bold experiments. As the discussed risk level is considerably low for co-working in case of large-scale investor, the experiment can simultaneously be responsible. Then again, few of the interviewees slightly challenged the presented approach relying on the investors' responsibility to their stakeholders and Finnish office investors are not likely to succeed in the field of operating co-working spaces.

All investors indicated that the decision process for investing in, or including co-working space in their office portfolio was straight-forward and easy to make in all levels of the organisation. Additionally, the significance and potential of the idea was easily adapted and quite instantly supported throughout the organisation. The management level was engaged to the development process in early phases and in some cases the initiative came from the management. Interviewees invariably assured that the need and more or less hidden demand for co-working space in Finnish office market were captured first as such, and the location and the space were selected not until after that. Therefore, co-working space was not a solution for certain vacant office space requiring new concept, development, and renovation. Although extensive internal selling of the concept was not required for believing in co-working, the selection and development of the final concept and approach model for co-

working took time and required internal dialogue due to the organisation profile related matters described above.

Interviewees described the development process even surprisingly complex totality that consisted of number of smaller units. Most of the organisations had visited co-working spaces of different operators across the Europe in order to build overall picture of the business framework and the requirements for building, investor, and operator. As the interviewees believed in the expansion of the co-working phenomenon also in future, they wanted to define the concept in all-encompassing extent enough to create offset for copying the concept efficiently later in other locations and preferably create a network of co-working spaces eventually. For that cause, few of the interviewees emphasised the importance of well-functioning digital platform and application for members and marketing tool for prospects but also for simplifying the selling process.

Decision making during the creation process of own co-working concept was seen difficult, as the demand for the content was not clear as the co-working market did not exist in Finland at that point yet, and it is still raw. Therefore, basically all of the investors engaged potential co-working space members and current tenants of traditional office for the development process and offered chance to influence the end product. That approach was seen fruitful and beneficial, and some of the participating organisations ended up as members to the launched co-working space. However, as the co-working space market was basically created supply first, instead of delivering solution for clearly defined existing demand, even the participation of user-organisations left plenty room for uncertainty. Investors highlighted, that the launch of the co-working concept required ability to accept that the product is not ready nor perfect, but will instead require fine-tuning at minimum. One of the investors stated that their launch strategy was based on ideology that the concept must be launched as soon as the borderline fundamentals have been set up and everything else will be resolved based on the user experience. The investor called this prototype as minimum viable product (MVP). Interviewees also agreed that running a co-working space successfully will require continuous learning and trial and error also throughout the entire life cycle of the space, not only right after the launch. As one of the interviewees put it:

It's both blessing and a burden. Co-working space will never be ready.

Naturally one of the key decisions during the development process of the co-working concept was to decide the operation model and whether to outsource it or not. All of the investors stated that every possible option was on the table and considered thoroughly, and the self-operated model was not self-evident beforehand. Additionally, many investors already had some operators as a tenant for similar kind of service, such as office hotels or start up incubators. Investors felt responsibility to treat these existing partners discreetly throughout the development stages of their co-working space.

One of the main reason to choose to self-operate the co-working space was strongly market based, as there were no relevant operator partners yet available in Finland to select from. Naturally, traditional office hotel operators had certain potential, but as the aim was to create pure co-working concept with new approach, office hotel would not have been able to solve the problem. As one of the interviewees phrased the issue:

In practise, there was no relevant option available in the market except to do it yourself.

In-house and outsourced operating models of a co-working space are further discussed and compared in the following section 4.6.

The theory framework of real estate investment strategies set in the literature review, the decision-making process and decision whether to self-operate or to out-source the co-working concept are in line. However, as the co-working spaces were not seen as a separate, independent investment due to the low volume within the entire portfolio and small risk levels, the entire decision-making procedure or separate strategy for co-working as an investment was not necessarily made. Moreover, adding co-working space into the investment portfolio was reflected against the strategy of the portfolio: does it fit to the investment horizon, is there any unsuitable risk, and does the organisation have enough resources.

Naturally investors who had their own co-working space concept had separate strategy on place also for the co-working space. That was realised in form of defining the time horizon, preparing preliminary calculations around the business case, setting risk triggers, and exit plans in case the pilot would not meet the set business requirements.

4.6 Co-Working Space Operating Models

4.6.1 Investor Operator

All the investors saw their co-working spaces as pilot projects, which have tested and created the non-existent market for its part. Therefore, development process required tolerance for unawareness and further, trial and error. The above-mentioned reasons together with the fact that there was no market for experienced co-working space operators, pushed investors to choose to create and operate their own co-working concept.

Especially three matters were repeatedly identified as the most important benefits of self-operating within the Finnish co-working market framework: Firstly, when in charge of the hands-on operative level, investors can ensure that everything in their power has been done to create successful co-working space. In case the concept would not contrive, it would not depend on half measures actions. One of the interviewees compared this approach to having internal leasing team instead of outsourcing the service completely when your office stock is not necessarily anyone's top priority.

Secondly, as continuous development is fundamental for starting business and pilot project, in-house staff in charge of the operations of the co-working space enable seamless communication of identified dissatisfaction and received feedback from the members. Therefore, management can react and adapt within short response time and preserve the pool of members. In this approach, the accomplished personnel and the importance of choosing right individuals to the crucial roles, such as the host and sales team, were especially highlighted.

Thirdly, resulting from the two above, the possibility for continuous learning and benchmarking of success factors and ultimate failures was seen important, and the pilot co-working spaces were even called as test laboratories. This approach was broadly based on the aim to create multi-locational network of co-working spaces under the same strong brand with simultaneously full control of the locations, timing, and volume.

Few of the interviewees validated self-operating with the profitability of the business behind the co-working space. As the investors anticipate the possibility of beating office market rents with co-working space memberships, choosing external operator and therefore sharing the profit did not seem reasonable. Operators were often described as poor tenants due their capacity to pay high rents as the operators must always have offset to make their own business between leasing and selling the space. As one of the interviewees said:

The operator must always get better deal than the market to survive.

Therefore, landlord could fairly expect to receive cash in-flows lower than traditional office market. Nevertheless, capable operator would convert the same space into sales that exceeds the market rent level of traditional office, and even multiple it. From this perspective, external operator is the least attractive option in comparison to remain in traditional leasing or self-operating a co-working space. One of the investors summarised, that by choosing external operator investor might be able to take the easy way out, but simultaneously misses the business opportunity.

Another motivator for choosing to self-operate the co-working space was the uncertainty of whether the value of co-working is tied to the co-working concept and brand, or to the space and building it is located in. In case the value will be created around the co-working business itself, real estate investor would not fully benefit of the value increment with external operator. One of the interviewees phrased it as follows:

And if you're a real business man, you can create strong brand from the co-working and expand to franchising concept in which the building doesn't need to be owned by the operator anymore. At best, you can sell the brand for, let's say, 200 million – and still own the buildings.

Lastly, interviewees strongly agreed that the selected operating model at the day one is not necessarily the same structure they will apply also in the future. Instead, they indicated to be extremely likely that at least some parts or functions of the operating will be outsourced at some point. Also for this approach the learning by doing was seen important as before experiencing and analysing the business thoroughly there is a major risk that the wrong functions are outsourced from the beginning. One of the interviewees was eminently reserved towards donating the client register to external partner without guarantee of the benefits to be achieved. Interviewees also felt that it will be easier to outsource in later stages certain parts or the entire operating than shift from outsourcing to in-house production.

4.6.2 External Operator

Also investors who had chosen to self-operate their co-working space concept saw that external operator partner is excellent option and approach for many types of investors. Some of the interviewees even indicated the possibility that external operator could have been also the correct approach for them even though current experience and results indicates otherwise. As one interviewee put it:

There's not really any such real estate investor in Finland who could succeed as an operator in co-working business.

From investor point of view, interviewees recognised two key benefits for external operator partner in co-working space. Firstly, again attached to the profile and strategy of the investor,

operators are cut out for saving time and resources from the investor. In case investor has small organisation for large portfolio to manage, reserving enough time resource for daily operative management and the solicitation of new members could easily turn out impossible. As these factors are vital for the success of the co-working space concept, external expertise of operator would turn out as an only option. Additionally, a barrage of unique short term contracts is arduous to manage for a large investor from the administrative perspective. When the overall efficiency decreases, the profitability of the business case behind the co-working concept trends similarly.

Secondly, operators typically sign long leases as the set-up investments are high and the first functioning years are typically either cash flow negative or neutral with extremely low expectations for drastic profits. That is quite in line with traditional office tenant with incentives weighted on the first years of the lease, but the lease term is longer, up to 10 years, than on the office market. After the first few years investor has solvent tenant, which is good for both the valuation and attractiveness of the asset. That approach serves the interest of certainly profiled investors very well.

All interviewees agreed that at least some revenue or profit based model is and will also be in the future attached to the operator contracts between investors and external operator. Some of the interviewees considered potential approach to tie the contract fully to the revenue or profit based model without any share of fixed rent. Additionally, interviewees saw that the variety of different contract structures will increase in future as the amount of different co-working space concepts and therefore operator service models will increase. For example, start-up incubators are not necessarily realistically able to pay market rent and the contract must be based on some sort of partnership model.

As the co-working space operator market is not mature, the more innovative and unconventional contract models are still rare. One of the interviewees framed that at the current market, operator is basically selling their service to the landlord, instead of landlord selling the space to the operator as is typically sold to the tenant prospects in more competitive rental market. Interviewees compared the change of market practises to the overall co-working space phenomenon: both are wide changes in large market with established practises, which typically take time to change.

On the other hand, although certain investor profiles and investment strategies may benefit and prefer more external operator, same characteristics limits also the possibilities and motivation to complex contracts with operators in comparison to traditional lease structures. One of the interviewees suggested that interesting hybrid model could be partnership in middle company together with the operator. In this approach, also more conservative investor could participate in the operating and development of the co-working concept through more transparent and lighter structure. Further, investor could reduce the risk of losing the operator outside its own office portfolio locations.

4.7 Co-Working Spaces in Future

All interviewees anticipated that co-working space business will continue growing both globally and in Finland. The current supply of co-working spaces in Finland was estimated to be only small fraction of the total market potential and opening gambit for the future growth. These assumptions were strongly based on the drivers behind the phenomenon (as discussed in section 4.1) and their expected growth also in future. However, interviewees

were also very careful with giving even indicative speculations of the final scale, market capacity, and the final rate of growth.

Most of the interviewees saw that the direction of the growth is clearly in solid networks of co-working spaces and that the network is also crucial character for successful co-working space concept. The service platform should be coherent in all co-working spaces used by individual member and therefore it was assumed that members would prefer using single co-working concept and its network instead of two or more competing concepts. One driver for that is also of course cost perspective, as membership in one co-working concept typically covers usage of all locations under that concept. The power of network was justified with the new ways of working as the work will be distributed also in location and therefore decent workspace must be available in multiple locations.

As much as the interviewees were reluctant to tangibly outline the form of future co-working space market in Finland, they nevertheless emphasised the significance and role of expansion of large-scale international co-working space operator to the Finnish market. Such market player will have significant benchmark from another markets internationally that the volume and the way of execution of such brand will strongly indicate the market capacity in Finland at least in short term. Additionally, reputed possibly global brand was seen really beneficial ambassador for co-working spaces in general as in Finland the demand side of the market has is not fully aware of the co-working as a product.

Few of the interviewees were slightly sceptic about the market capacity of pure co-working space, as also the current supply is more or less upgraded office hotel with some open office area but mainly focused on small but still private office units. These interviewees also saw importance of large international co-working brand as it would prove whether pure co-working can have profitable future in Finland. That approach was also tied to the Finnish temperament, as one of the interviewees put it:

When some credible international operator enters this market the nature of their business in here shows whether co-working has any true foothold in Finland, or are we just too taciturn and sullen nation for co-anything.

One interviewee put high value in the future development of co-working spaces for the public sector's offices and saw in turn that when co-working is adapted in those organisations, the growth and expansion of the phenomenon will take major leap in Finland. Such drastic change in the ways of working in traditionally very inflexible and even dated sector would set new norm for the offices in general. Additionally, as the public sector is a large employer the shift would increase the volume of co-working space at once.

In addition to independent business sector was co-working seen also as a crucial phase in the evolution of work environments by interviewees. This approach was identified both through the new ways of working in general and physical work spaces. Firstly, all interviewees agreed that co-working as a denominator for modern knowledge work has come to stay. One of the interviewees stated that all organisations, despite their size and field of business, will adapt co-working more or less to their business activities in future. Secondly, this transition was seen to cause co-working as a physical space to take over every office building in use. That does not necessarily require having separate co-working space operator in the building, but instead co-working can be applied in its many forms, such as internally in single organisations and accelerators or incubators within private office premises. In

typical case, most of the office buildings were seen as a hybrid of all possible forms of co-working.

5 Conclusions and Summary

The purpose of this research was to build comprehensive understanding over the co-working space business in Finland from real estate investors' perspective and furthermore, analyse the current state and the future of co-working spaces against the local rental office market. Empirical research was performed by interviewing six representatives of four Finnish commercial property investor organisations and one representative of global office hotel service provider.

The co-working space market in Finland is relatively raw though rapidly growing in its early stage of development. In further developed co-working space markets, such as in U.S. and U.K., the co-working spaces are typically operated by external service providers as a tenant or partner of the investor of the subject premises. Nevertheless, in Finland most of the established commercial co-working spaces are operated by large office investors. Additionally, the current co-working space market also covers smaller operators. These, however, are mainly non-profit or focused on start-up incubator sector.

The interview results reveal that Finnish office investors have identified the globally rapidly expanded co-working space movement and such drivers behind the phenomenon that will strongly and permanently affect also to Finnish office market. These drivers are new work in terms of new ways of working and changed structures of employment, fragmentation of companies resulting network of increased amount of small companies, changing needs of corporate organisations for business premises in terms of flexibility, efficiency, and productivity, and lastly new dynamics of the wide operational environment in terms of digitalisation, developing technical solutions, servitization, platform economy, and new generations.

A few of the largest office investors in Finland have selected to launch their own co-working space concepts and self-operate those instead of acquiring external operator as a tenant or as a business partner. Following three main reasons were identified in the interviews for investors to create and self-operate their co-working space concepts:

1. Lack of external service provider options

All investors with own co-working space concept had considered also all other alternative operating models, as running co-working space is not the core-business of any of the subject investors. However, it turned out that there was no external operators available in the Finnish market with understanding of and track record from co-working space business.

2. Undeveloped and raw market (blue ocean)

Partly in connection to the above (1.), as there was no established co-working space market in Finland, neither on the demand nor the supply side, the expansion to the business required both teaching the market and defining the right concept model. The demand of the co-working space was seen hidden, as the potential co-working space users did not yet have the service available to concretely define and on the other hand response to their needs. Further, as the entire office market did not have practically any track record from the co-working, the service model of the concept needed to be defined and created from scratch as well.

The investors saw that hands-on participation to the development process crucial in order to create functioning concept, as the process would require sensitivity to adapt to the market and the process required readiness for trial and error. Last, the investors wanted to ensure that once the market was entered, all in their force will be done to investigate the entire market potential.

3. Strong future vision of the phenomenon

As stated above, the investors had strong belief in the drivers behind the co-working phenomenon, which in turn is likely to affect to the entire nature of working and the ways of using office premises. The investors indicated that it was indispensable to be part of the movement right from the beginning, as trying to catch up the market once established would be too late.

Although many investors chose to create and operate their own co-working space concept due to the reasons presented above, all interviewees agreed that self-operating is not the best approach to all investors, mainly due to the investment strategy, available resources, and organisation culture. Further, all investors saw that as the co-working space market will be more established, the co-working space service can be fully or partly outsourced to external service provider(s). Additionally, interviews revealed that to achieve its full potential, some of the largest international operators should enter to the Finnish co-working space market.

Contrary to traditional assumption of the stereotypic co-working space user as a trendy hipster freelancing on a creative industry, the research showed that typical co-working space members in Finland are mainly knowledge workers from multiple fields of business. All in all, the member pool was seen very heterogenic in backgrounds by the interviewees. However, both empiric research and the literature (Spinuzzi 2012) discovered that the clientele and the target client groups often vary from each other. Based on the interviews, the main difference was that especially the investors saw highest potential for co-working market in corporate organisations instead of small businesses or self-employers.

The results regarding the position of co-working space market in the framework of rental office market indicated strongly that none of the interviewees saw co-working as a threat or direct competitor for the traditional office market. Moreover, co-working space market was considered as a natural extension of it. The interviews also resulted a strong consensus that co-working space is not a tool to decrease or defend from high vacancy rates of the market. Quite the contrary, it was even estimated that some of the typically fully occupied prime office locations will be possibly converted into co-working use due the increased demand.

The relation and differences between co-working spaces and office hotels in Finland was instead highlighted, and these insights were roughly divided into two categories. Either co-working spaces were considered as traditional office hotels with somewhat larger open office area and trendier brand/concept, or co-working space was seen as an independent product with fully different characteristics, services, and clientele. Regardless, office hotels were identified as competitor for the co-working spaces all along the line. Other identified competing space options were more affordable regular offices, public sector's rent free solutions (e.g. by libraries), and third places (e.g. coffee shops).

The results of the research revealed following six success factors for co-working space, especially in Finnish market: clear concept, central location, modern workspace solution, well-reasoned selection of member services, authentic community, and network of the co-

working spaces. Additionally, most of the interviewees highlighted the importance of automatized and digitalised systems for acquiring and maintaining the membership, especially in terms of efficient use of co-working space provider's resources.

From real estate investment perspective, interviewed investors did not see investing in co-working to have high risk profile, quite the opposite. As the share of co-working space in only a fraction from the entire office stock and investment portfolios, the co-working spaces in their current extent is more equivalent to any other lease agreement in the rent roll than to an independent investment. Simultaneously, especially the investor representatives saw that co-working as a business model has high potential for beating financially the traditional office leasing. That is mainly due to the different cost structure and possibility to oversell the theoretical seat capacity of a co-working space.

The possible valuation issues were considered, yet seen as a minor problem. Instead, the investors were waiting the valuation branch to draw guidelines for valuation principles of co-working spaces. Yet again, as the Finnish structure of owner-operated co-working spaces is rather rare internationally such guidelines are not necessarily that significant topic in the international valuation discussion.

6 Quality of the Research and Further Research

One of the motivators for this research was the topicality of the matter: co-working space market in Finland from investor perspective. However, as the co-working phenomenon is relatively new also in international framework, there is only limited amount of literature available concerning the matter. Especially the availability of academic research and journals is still rather narrow, whereas media and un-official sources show high interest towards the topic. Therefore, the literature review was based on both types of sources.

The empiric part of the research was executed through theme interviews of the representatives of some of the largest office investors and a global office hotel operator. Although the selected organisations and further, the interviewees were very representative catchment of the market and knowledge in terms of experience and education, the total amount of the interviews (seven) is however relatively narrow capture. Especially it could have been useful to interview more such real estate investor organisations which do not have any co-working space solution, yet. Although the interviews covered one investor organisation which does not have own co-working concept, also that investor has signed soon opening co-working space operator in its portfolio. Therefore, including such organisations could possibly have provided alternative insights to the phenomenon and Finnish co-working market.

New topic and limited availability of literature over it indicates room for further research in the field of co-working spaces. From Finnish market perspective, the research field could be completed at least in two sectors: co-working space supply and demand in future. As said earlier, there are high expectations on the Finnish co-working space market regarding international co-working space operator to expand to Finland. If and when this market shift happens, the results on the market dynamics, especially the supply structure would be interesting point of research.

Additionally, the demand could be researched in more detail from different perspectives, such as the profiles of current co-working space members in Finland and on the other hand, the future potential of the corporate organisations as a co-working space users and the actual interest of those organisations towards exploiting co-working spaces in their corporate real estate portfolios.

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APPENDIX 1: The Interview Theme (investor)

THEME FRAMEWORK FOR INTERVIEW INVESTORS' STRATEGIC POINT OF VIEW

BACKGROUND INFORMATION

- Job description of the interviewee and relation to co-working spaces
- Background of the interviewee in brief (career and education)

TOPICALITY OF CO-WORKING PHENOMENON

- Does the organisation currently have co-working spaces in its office properties?
 - If yes: Why? What kind of co-working space(s)? Origin of the idea?
 - No: Why? Has the possibility been considered?
- Drivers behind the growth of co-working phenomenon
- What are the expectations for co-working space(s)?

CO-WORKING SPACE OPERATOR

- Comparison of different operating options (owner-operator, service provider, tenant operator, other?)
- How and why was the operating model selected (if organisation has co-working spaces)?
- Lease models and rent structures for external operator (fixed market office rent, turnover based rent, hybrid combination)

BUSINESS FRAMEWORK FOR CO-WORKING SPACE

- Key business drivers of (successful) co-working space from investor's perspective
- Main challenges from property investment perspective
- Time span for co-working space decision?
- Deal breakers and makers when deciding whether to invest in co-working space(s)
- Effect in valuation of the office property
- Effect of co-working spaces in rental (office) market

FUTURE OF CO-WORKING SPACES (IN FINLAND)

- Trend, phase passing by or something else?
- Future expectations for co-working spaces
- How your organisation will develop your co-working space offering?

APPENDIX 2: The interview theme (operator)

THEME FRAMEWORK FOR INTERVIEW INVESTORS' OPERATIVE OR OPERATOR'S POINT OF VIEW

BACKGROUND INFORMATION

- Job description of the interviewee and relation to co-working spaces
- Background of the interviewee in brief (career and education)

TOPICALITY OF CO-WORKING PHENOMENON

- Drivers behind the growth of co-working phenomenon
- What are the expectations for co-working space(s)?

DEMAND AND USERS OF CO-WORKING SPACES IN FINLAND

- Typical user groups of co-working space in Finland
- Target groups
- Sales characteristics and challenges
- Co-working space market

BUSINESS FRAMEWORK FOR CO-WORKING SPACE

- Key business drivers of (successful) co-working space
- Main challenges of operating co-working space
- Goals and profitability factors of co-working space
- Preferred lease structure for operator

FUTURE OF CO-WORKING SPACES (IN FINLAND)

- Trend, phase passing by or something else?
- Future expectations for co-working spaces
- How your organisation will develop your co-working space offering?