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# *Co-working space in Saudi Arabia*

## **The promise and the potential**

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## ***About the authors***

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### **Strategy& Middle East**

**Hilal Halaoui** is a partner with Strategy& Middle East. He is based in Riyadh and is the leader of the public sector practice in the Middle East. He has more than 15 years of management consulting experience in the Middle East where he focuses on government restructuring plans as well as turnaround strategies for public and private entities.

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### **Monsha'at**

**Mohammed A. Alariefy** works for Monsha'at, the General Authority of Small and Medium Enterprises, as General Manager of Entrepreneurship Planning. He leads the effort to create projects that will enable key entrepreneurship ecosystem players to develop entrepreneurship mind-sets and ensure entrepreneurial culture awareness across the different social segments in the kingdom, including women and social entrepreneurship. His office supports aspiring entrepreneurs in the ideation phase as they refine their business plan and model. It helps entrepreneurs and early-stage startups shape their business operations and further test and refine a minimum viable product. Previously, he worked for global consulting firms advising leading corporate and government organizations, recommending resolutions to complex matters of significance and ensuring the implementation of the approved course of action.

Rami M. Alghamdi also contributed to this report.

## ***About Monsha'at***

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*Monsha'at, the General Authority of Small and Medium Enterprises, focuses on supporting, developing, and nurturing the small and medium-sized enterprise (SME) sector in Saudi Arabia following best global practices, by implementing and championing programs and projects to promote the culture and spirit of entrepreneurship and innovation, and identifying diverse sources of financial support for SMEs.*

# Executive summary



**As Saudi Arabia's economy continues to diversify and change,** workplace needs are also shifting from traditional office spaces with long-term contract commitments to a more sophisticated and flexible working environment. As such, demand is growing for co-working spaces where freelancers, entrepreneurs, and small and medium-sized enterprises (SMEs) can share offices and services in flexible, affordable ways. Such spaces, which have become increasingly common in countries such as the U.S. and U.K., have a relatively low penetration rate in Saudi Arabia. This presents a significant opportunity for investors to convert some of the kingdom's available commercial properties into co-working space.

We have identified the challenges of establishing co-working spaces in the kingdom, related to capabilities, design, services, awareness, funding, and information. Investors who can overcome these challenges would address the urgent need for more co-working spaces and potentially benefit financially. Moreover, by creating environments in which entrepreneurs and SMEs can thrive, developers and investors could play a key role in realizing the longer-term Saudi Vision 2030 objective of diversifying the economy.

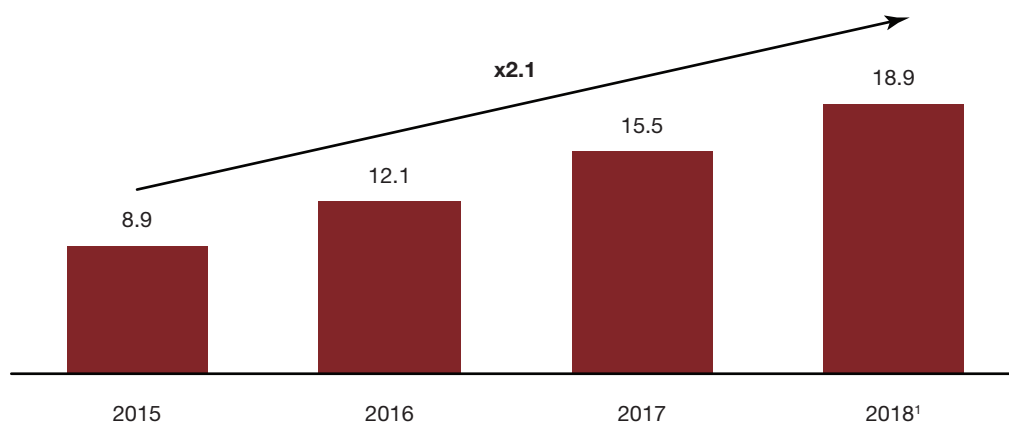
# The growing demand for co-working space

Saudi Arabia is far behind similar markets in its provision of co-working spaces. Although there is considerable interest in the country, the availability of such property is limited, and relatively speaking rents are high. This is in stark contrast to the global co-working market, which has grown steadily for the past decade and in which growth is now accelerating. The number of global co-working spaces doubled in the past three years and their membership, in terms of the people who use them, has tripled (see Exhibits 1 and 2). This expansion is expected to continue, with industry leaders such as U.S.-based WeWork likely to grow aggressively in multiple locations given the affordability and flexibility of these spaces, as well as the networking and educational opportunities they offer.

## Exhibit 1

### Globally, the number of co-working spaces doubled between 2015 and 2018

Global number of co-working spaces (in thousands)



<sup>1</sup> Estimate

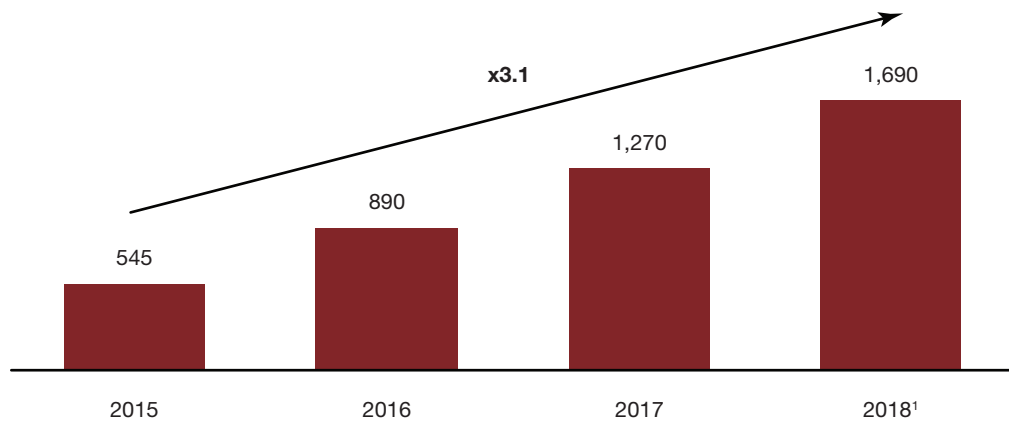
Source: Carsten Foertsch, "Global Coworking Survey. Member demographics: members of coworking spaces," Deskmag, 2018 (<http://www.deskmag.com/en/the-state-of-coworking-spaces-in-2018-market-research-development-survey>); Monsha'at, and Strategy& analysis

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## Exhibit 2

### The number of co-working space members globally tripled between 2015 and 2018

Global number of co-working space members (in thousands)



<sup>1</sup> Estimate

Source: Carsten Foertsch, “Global Coworking Survey. Member demographics: members of coworking spaces,” Deskmag, 2018 (<http://www.deskmag.com/en/the-state-of-coworking-spaces-in-2018-market-research-development-survey>); Monsha’at, and Strategy& analysis

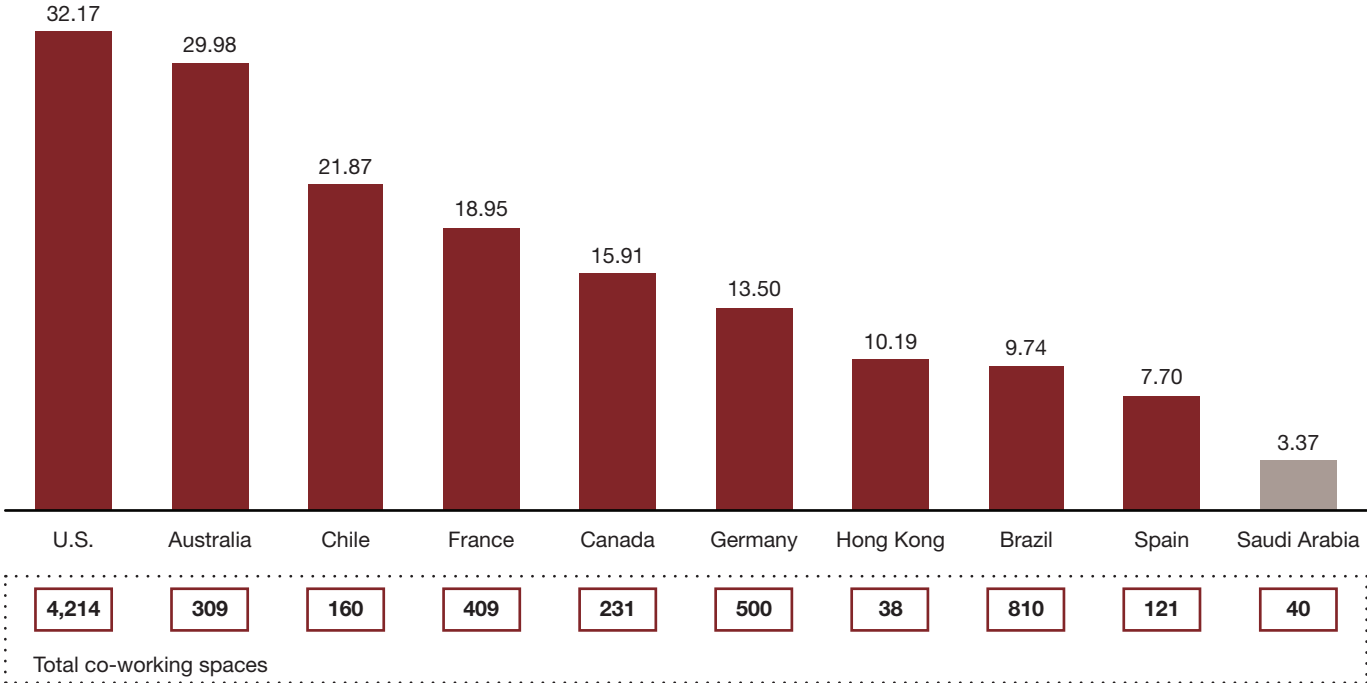
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Expansion is a result of technological advances and economic interest. Improved Internet connectivity, reliability, and speed allow people to access cloud storage/computing and communicate from almost anywhere. These changes have eroded the advantage of working from a custom office with wired network connections and telephony. Also, the increasing popularity of entrepreneurship as a mainstream career choice even for recent graduates has boosted the demand for co-working spaces. Moreover, the “Gig Economy” is proving to be no passing fad, with one freelancers’ union projecting that most of the U.S. workforce will be freelance by 2027.<sup>1</sup> These trends have caught the eye of investors, who are increasingly making funding available to create co-working spaces. Co-working expansion has also been attributed to changing workforce preference, as people want their workplace to be part of a vibrant community as opposed to a solitary home office or traditional office space. The social and business connections this type of community offers are becoming more important for today’s workers.

Global workplace trends are increasingly affecting Saudi Arabia and transforming the workplace from traditional to sophisticated. However, the amount of co-working space available has not kept pace with the demand for more modern workplaces, and provision is far short of what is on offer in comparable countries (*see Exhibit 3*). In 2018, it is estimated that there were 40 co-working spaces in Saudi Arabia offering around 30,000 square meters of work space, with the highest concentration of these spaces in the Riyadh and Mekkah regions.

**Exhibit 3**  
**The market for co-working spaces in Saudi Arabia lags behind the rest of the world**

Number of co-working spaces per one million target workers



Note: Data for France do not include Corsica. Saudi Arabia data include all operating co-working spaces, whether licensed or unlicensed.

Source: Monsha'at and Strategy& analysis

The supply shortage means that major cities in Saudi Arabia command rates that are among the highest globally, disproportionate to those cities' commercial real estate rental prices (*see Exhibit 4*).

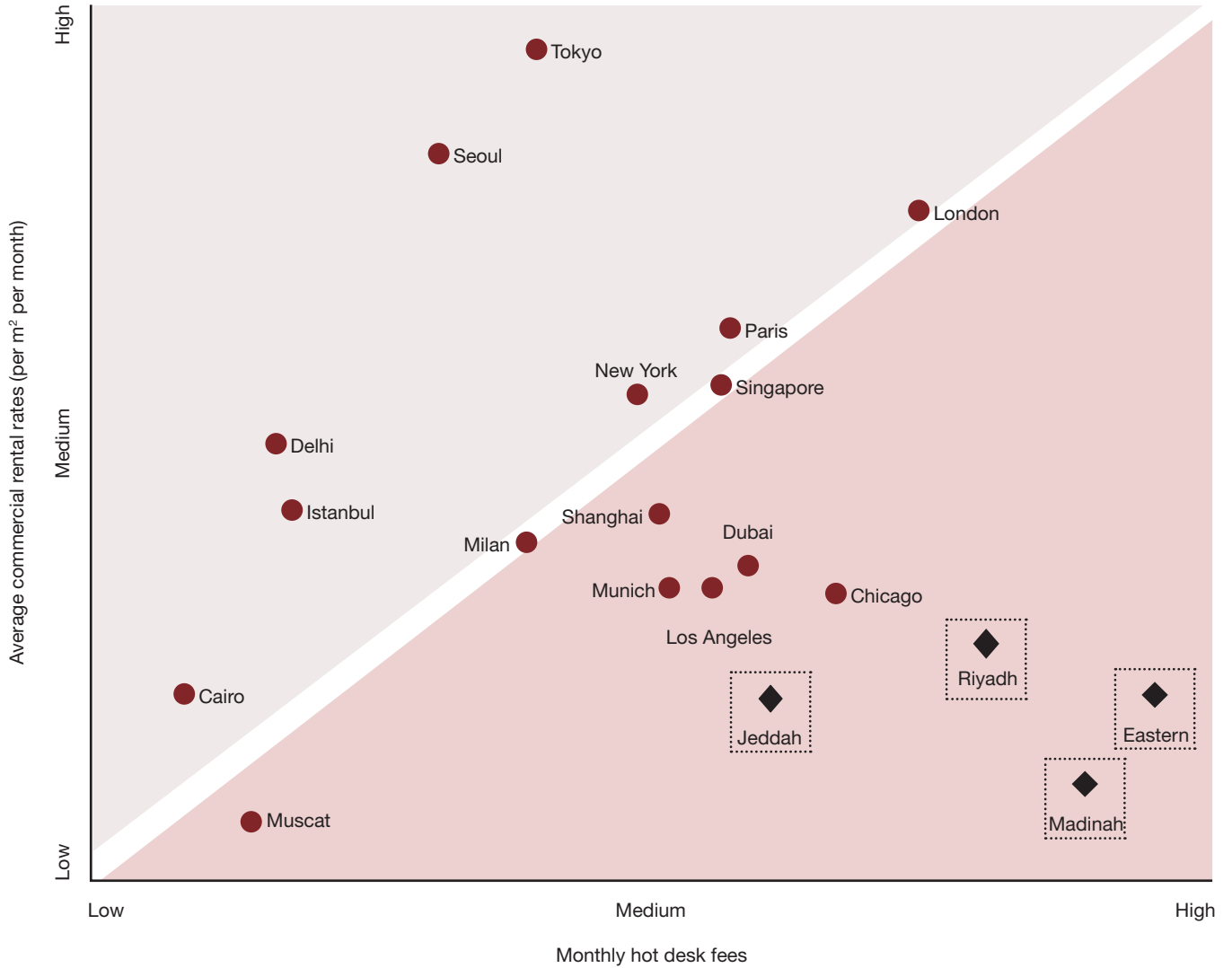
Long-term trends in Saudi Arabia bode well in theory for continued demand growth for co-working space. Saudi Vision 2030, the national development plan, aspires to increase the number of freelancers and entrepreneurs and offer support to SMEs to diversify the economy. Demographics could also play a role as co-working spaces are dominated by young workers. Globally, almost two-thirds of those utilizing co-working space are younger than 40 years of age. In Saudi Arabia, more than half of the population is under 40 years old, precisely the demographic that wants co-working spaces.



Exhibit 4

Saudi cities command some of the highest global co-working space rates

Hot desk rates vs. average commercial rates, by city (2017/2018)



Note: Hot desk = an office desk available for use by many employees (shift, part-time, or offsite) and freelancers; not assigned to a specific individual.

Source: Monsha'at and Strategy& analysis

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# *The benefits of co-working space*

The growth in co-working globally is in many ways a result of the clear benefits that co-working locations provide to companies and individuals.

## 1. Affordability

Co-working spaces are cheaper overall than traditional office space. In a co-working environment, users rent space that best fits their needs. This could range from a single desk to a full floor. Co-working spaces also offer basic, affordable business services on an as-needed basis, such as front desk services, executive assistant services, printing, access to meeting rooms, and mail service.

## 2. Flexibility

Co-working spaces are flexible and their size can be quickly increased or reduced. This is particularly useful for SMEs. These companies can struggle to match the size of their offices with their current workspace needs. Often they are either underutilizing their space or suffering a shortage of it. Such mismatches cause inefficiencies, and can lead to major disruptions in the workplace.

## 3. Community/Networking

Co-working spaces provide occupants with the ability to mix and network throughout the workday, which can lead to a creative exchange of ideas, collaboration, and exposure to technology. A typical co-working space includes a mix of open space and closed offices. In recent years, there has been shift in preference to open spaces and larger common areas, particularly among millennials.

## 4. Education/Support

The best co-working spaces offer a variety of training and community events that keep members up-to-date and connected to the latest innovations and business trends. These could include speakers, workshops, or startup demo days. Some co-working spaces also offer support specific to startup and SME needs, such as incubation/acceleration programs and business clinics.

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# *How to increase co-working space in Saudi Arabia*

The challenge for Saudi Arabia is to promote the growth of co-working spaces by encouraging investors to form partnerships with relevant stakeholders and to promote investment in this kind of office space. Simply telling people to invest, or stimulating investment with incentives, is not enough to jumpstart a thriving industry. Globally, many co-working businesses are not profitable despite their growth. In this developing industry, focusing on improving capabilities, capturing market share, or, in the case of nonprofits, providing space for the public good have all come at the expense of profits. It is no different in Saudi Arabia. Companies must be prepared to offer a unique value proposition that will carry them beyond the initial period of market stabilization and help them to survive, and profit, long term.

To improve on these odds, Monsha'at is working with organizations in the public sector (e.g., municipalities) and the private sector (e.g., private equity and venture capital firms) to support and improve co-working spaces on a number of fronts (*see Exhibit 5*). Actions taken by Monsha'at revolve around a set of needs that include:

*Management capabilities:* The country needs more talent with experience managing co-working spaces.

*Location and design:* Too many co-working facilities are inconveniently located and/or suffer from poor layouts.

*Services quality:* The quality of co-working services offered can be improved.

*Public awareness:* Potential members and potential partners (both public and private) of co-working facilities are often unaware that the co-working spaces exist.

*Funding requirements:* There is still limited access to the funding needed to build co-working facilities and enhance the quality of services.

*Information access:* There is also limited access to information about the co-working market that could speed licensing and help develop growth strategies.

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Exhibit 5

Requirements to develop co-working spaces in Saudi Arabia



Source: Monsha'at and Strategy&

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# ***Conclusion***

Investors have an opportunity to build co-working space in Saudi Arabia to meet demand from freelancers, entrepreneurs, and SMEs, and help the country's pursuit of Saudi Vision 2030 and a more diverse economy. A strong working relationship between the regulator, other public entities, and the private sector can address ecosystem needs and open the door to the development of these valuable centers of business innovation and diversity.

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# Endnotes

<sup>1</sup> Upwork and Freelancers Union, “Freelancers predicted to become the U.S. workforce majority within a decade, with nearly 50% of millennial workers already freelancing, annual ‘Freelancing in America’ study finds,” October 17, 2017 (<https://www.upwork.com/press/2017/10/17/freelancing-in-america-2017/>).

<sup>2</sup> Carsten Foertsch, “Global Coworking Survey. Member demographics: members of coworking spaces,” Deskmag, 2017 (<http://www.deskmag.com/en/members-of-coworking-spaces-demographics-statistics-global-survey-coworkers-research-2017>).

<sup>3</sup> Carsten Foertsch, “Global Coworking Survey. Member demographics: members of coworking spaces,” Deskmag, 2017 (<http://www.deskmag.com/en/members-of-coworking-spaces-demographics-statistics-global-survey-coworkers-research-2017>).

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