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Need Temporary Office in Moscow? Try Coworking

By Natalya Bokareva

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Cabinet Lounge caters to the needs of people who need an office in central Moscow but don't have their own.

Architect Anton Khmelnitsky has lived between Moscow and London for the past 10 years.

The office of Architects of Invention, the international company that he works for, is located in London. But many of its customers are in Moscow. Arranging meetings used to be quite a task without a constant presence in Russia's capital.

That is how he came up with the idea of a shared business space and co-founded Cabinet Lounge, which allows businesspeople to rent an office or meeting room in a redecorated historical mansion on Novaya Ploshchad, near many government institutions.

"I realized that talks in cafes are not good for business and keeping a fixed office here is not practical. That is how Cabinet Lounge came to life — I would say out of an operational need,"

Khmelnitsky said in an interview.

The concept of shared business space for multiple individual and small corporate customers, which is common in many cities of the world, is now booming in Moscow.

On a busy day far from your headquarters you may need a place for an urgent video conference with an overseas partner. Or you may be in Moscow on a business trip and do not have a permanent location. Also your budget may be modest — you cannot afford a fixed office or find it too expensive to rent.

But now one has an opportunity to rent an office at a coworking center with separate rooms or individual desks and all the necessary equipment and support services.

Cabinet Lounge offers meeting rooms, fully equipped work spaces and offices, a conference hall with video conferencing facilities, Wi-Fi, a secretary, an IT consultant and a restaurant. As its website states, it caters to the needs of business and creative people who are not tied to a specific place of work or a 9-to-5 schedule, people who need a high-quality office within the Garden Ring in central Moscow for important negotiations and presentations.

"It is not a place where you would work 9-to-5, though desks with computers are also available," Khmelnitsky said. "Rather, they are 'hot desks' to check your inbox between meetings."

Teams working long hours and even round the clock would probably consider options at coworking centers outside central Moscow. Usually they use the spacious premises of former factory buildings, said Ekaterina Fadeeva, who is in charge of a new coworking center called DI Telegraph, which is part of Moscow's Dream Industries technology group.

Spacious buildings allow for the planning of lounge zones as well as an upper floor to boost capacity. This is important both on the demand side and for the owners, she said.

Andrei Kompaneyets, project manager at Coworking Nagatino, located in southern Moscow, believes that a break-even ratio for independent commercial spaces of this type should be no more than 5 to 6 square meters per person. Moscow's city government supported the creation of Nagatino with even more generous room of about 8 square meters per head. The former furniture factory was refurbished a couple of years ago to accommodate 89 desks, which mostly are rented to individual entrepreneurs and small teams.

Who Are the Co-Workers?

Dream Industries' Fadeeva estimated that about 70 percent of customers in a coworking center are small teams, 25 percent are freelancers and the remaining 5 percent are company managers and staff. DI Telegraph, based in Moscow's former Central Telegraph building, expects a breakdown of 85 percent startups and 15 percent freelancers.

Rabochaya Stantsiya (Coworking Station), a coworking center located in Neskuchny Sad next to Gorky Park, counts only 10 percent of its customers as freelancers, which it sees as a window of opportunity to increase the number of clients.

"There is a common misperception that coworking spaces are used by freelancers, IT

specialists, designers or startup owners," Kompaneyets said. "In fact, coworking users are usually the same typical office residents. The only difference is their wish to cut costs."

He said this calculation was true for small teams of up to five people. At this threshold, many companies start to discuss whether they should stay on or move to a conventional office. So there is certain turnover among coworking residents as their businesses grow.

Fadeeva observed that residents tend to stay for months; the Russian average for individuals and projects is four to nine months, which is similar to in the West, although there are residents who have occupied a place for a year or two. It is difficult to judge about longer spans, as the industry is rather young.

"About 70 percent of customers stay with us for four to five months. There are residents working for more than a year. One-off attendance is rare, mostly coworking is used as a regular place of work," said Mikhail Komarov, co-owner and founder of Rabochaya Stantsiya.

The Community Spirit

"It is not where you work that is important in a coworking center; it is who you work with. This is not a widely appreciated notion unlike the clear need for cost-effective office spaces and the passion for creative design workplaces," Fadeeva said.

In her view, working together with "soul mates" is really important for the audience of entrepreneurs, IT startups, and specialists from creative industries. They exchange experience and contacts and help one another with developments, creating new ideas and projects. The words "serendipity" and "community" are often heard at international conferences on coworking.

While Western coworking projects are all about community, in Russia they are perceived more as simple spaces offering desks for work. Fadeeva hopes DI Telegraph will break the stereotype. The center located in the heart of Moscow, on Tverskaya Ulitsa, will aim to create a community first and foremost, without offering free access to nonmembers.

"We talk to all potential customers in order to get acquainted and see whether we work well together," Fadeeva said. "Only after that can you join the coworking, which does not necessarily imply being present on site. You may buy virtual membership by paying a monthly fee to get access to our community and services."

Cabinet Lounge, which positions itself as a private business club with a coworking space, also works to build a community.

"We decided in favor of a club system because it is really important for us that people should feel comfortable, which requires some sort of face control. We have to make sure that members in our club complement one another and build useful contacts," Khmelnitsky said.

Events are arranged several times a month to offer opportunities for networking. Among Cabinet Lounge guest lecturers over the past two years have been billionaire Pyotr Aven; the president of the Russian Union of Industrialists and Entrepreneurs Alexander Shokhin;

banker Ruben Vardanyan, U.S. investor Jim Rogers; and television anchor Vladimir Pozner. The club membership itself is quite diverse: big investors, consultants in various industries, headhunters, designers, producers and gallery executives.

Kompaneyets, however, believes that coworking spaces are part of the office market: there may be a focus on networking and atmosphere, but in a nutshell it is all about using spaces for business. He said the competition is now shifting to locations which may mean higher prices.

The Cabinet Lounge concept was not initially designated for an elite segment. It was meant for businesses that relied on meeting customers and for people who appreciate the atmosphere. Many startup owners and members of the creative class are also in this group who pay 15,000 rubles per month for the basic club card.

"A real alternative to our offering could be the lobby of a five-star hotel or a restaurant. And if you compare the price of a cappuccino for every appointment in such places, you see our offering is rather cost-effective," Khmelnitsky said.

Besides the business club, there is also a floor with 40 fully furnished offices designed in a modern loft style for rent. Overall, about 90 percent of its capacity is booked, which means that stylish, furnished offices with good location are in demand, Khmelnitsky said.

He and his partners are considering other locations in Moscow as well as in St. Petersburg and Yekaterinburg. "It is not a mass-scale story, but the demand in this segment is certainly not exhausted with only one project," Khmelnitsky said.

He said it cost about $2 million to open the lounge, and it generates an annual revenue of $4 million and has a profit margin of 20 to 25 percent.

Moscow and St. Petersburg offer many potential buildings but some are in extremely poor condition, while former industrial properties usually need major renovations. Besides, such buildings are often owned by state entities or big investors who keep them on their balance sheets with no ideas about their future. If they decide to sell, no one would guarantee that the coworking center will be allowed to stay, Fadeeva said.

For operators who rent and refurbish buildings for average-size mid-range coworking center of 500 to 700 square meters, the initial investment is about 10 million to 15 million rubles, Kompaneyets said. The annual rent rates depend on location. Komarov of Rabochaya Stantsia estimated an initial investment of 15 million rubles and annual fees of 20 million rubles.

The most recent addition to the market is Cowork na Kryshe, a new 700-square-meter coworking center with a rooftop terrace to accommodate a summer lounge, which opened on Feb. 10. The building near the Savyolovskaya metro station will host the first branch of the first chain of coworking centers in Moscow. The emphasis will be on customer service and flexible rates, set not only on a per-month basis but also for a certain number of visits regardless of the dates, project manager Yevgeny Savin said.

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