

The background of the entire page is a photograph of a modern office interior. The top half shows a large, open-plan office space with a high ceiling, a grid of recessed lights, and large windows that look out onto a green landscape. In the foreground, there are several ergonomic office chairs and desks. The bottom half of the image shows a wide, wooden staircase with a glass railing, leading down from the office level. A person is walking down the stairs, and another person is standing near a whiteboard in the background.

COWORKING:

A Corporate Real Estate Perspective

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Chapter

TABLE OF CONTENTS

INTRODUCTION	4
THE EVOLUTION OF COWORKING	5
First Place	5
Second Place	5
Third Place	6
Fourth Place	7
Coworking	7
DEMAND SIDE DRIVERS OF COWORKING	8
Rise of the Contingent Workforce	8
Renewed Interest in Entrepreneurship	9
Rift in the Employer-Employee Contract	9
Growth of the Sharing Economy	10
Consumerization	10
Changing Business Priorities	10
Technological Innovation	11
A Scent of Opportunity	11
SUPPLY-SIDE DRIVERS OF COWORKING	12
ABOUT THE OWNERS	13
ABOUT THE COWORKERS	16
ABOUT THE CENTERS	18
HISTORIC AND PROJECTED GROWTH OF COWORKING	19
CORPORATE COWORKING	20
INDUSTRY RISKS	21
Urban Migration Trends	21
Economic Downturn	21
Industry Cannibalization	22
Market Saturation	22

INDUSTRY RISKS (CONTINUED)	
Short-Term Incomes vs. Long-Term Obligations	22
Small Business Failure Rates	22
Company Lifespan Shortening	23
Interest Rates and Cost of Capital	23
Future Leasing Costs	23
Membership Renewals	23
Construction Costs and Fit-Out Allowances	23
Price Competition and the Threat of Free Work Space	24
Eroding Margins	24
Political and Economic Instability	25
Absence of Publicly Available Financial Information	25
Expansion Into New Unknown Markets	25
Employer Workplace Changes	25
Lease Accounting Changes	25
Return to Private Space	26
Security Issues	26
Market Consolidation	26
Low Barriers to Entry	26
Technological Advances	26
Financial Event of One Could Influence All	26
Ability to Attract Corporate Clients	26
IMPLICATIONS FOR CRE PLAYERS	28
Occupiers and Employers	28
Building Owners and Investors	28
Architects and Designers, Furniture Manufacturers, Professional Service Providers	28
Coworking Operators	29
WHAT'S NEXT?	30



Coworking: A Corporate Real Estate Perspective

Photo courtesy of Ari Burling

Coworking Center: A membership-based environment where the self-employed, or people with different employers, work in a casual, community atmosphere.

An unfamiliar concept 10 years ago and poorly understood even now, coworking is one of the fastest-growing sectors of the commercial real estate market. In the few years since the concept began to take hold, the industry has grown to include more than 11,000 shared workspaces around the globe. While major U.S. and U.K. coworking markets are beginning to show signs of maturity, the demand in second-tier cities and emerging markets is fueling double- and even triple-digit growth for coworking centers.¹

Though its growth has been profound, the shared workspace market—including serviced offices, coworking spaces, incubators, accelerators and more—represents less than 1% of the world's office space.² Nevertheless, coworking and the broader category of flexible workplaces are important trends worthy of owner, investor and occupier attention.

In the early days of coworking, these trendy, collegial spaces primarily housed entrepreneurs, small businesses and freelancers. But as awareness of this new workplace alternative has grown, so has the attention of corporate occupiers. Driven by demand factors, including new-generation work styles and the desire for real estate portfolio agility, C-suite executives from human resources, operations, real estate and finance are increasingly interested in how coworking affects their work practices and policies—and how they need to design, manage and operate their workplaces.

On the supply side, coworking offers landlords and owners with excess space a new type of occupant that can reinvestigate older properties. Even hotel chains, retailers, libraries and restaurants are getting in on the action.

¹ The Instant Group. (2016, June). *Flexible workspace review—UK 2016*. <http://www.theinstantgroup.com/media/205246/us-flexible-office-review-2016.pdf>.

² Jones Lang LaSalle. (2016, May). *Shared workspaces*. <http://www.us.jll.com/united-states/en-us/Research/US-Shared-workspace-2016-JLL.pdf?469a8209-e847-4cf7-9ae9-09deb6f990d9>.

³ PGi. (2015). *2015 PGi global telework survey*. http://img03.en25.com/Web/PremiereGlobalServices/%7B7e70c99d-24b4-43c3-96f9-4c3a24698cf4%7D_2015_PGi_Global_Telework_Survey.pdf.

figure 1

THE EVOLUTION OF COWORKING



THE EVOLUTION OF COWORKING

The journey from the traditional office to coworking has been a long one, with many stops along the way. “Fourth place” is becoming a common term for the serviced office and coworking iteration, with “first place” referencing the traditional office, “second place” being the home or satellite office and “third place” referring to coffee shops and other informal settings (*See Figure 1: The Evolution of Coworking*).

FIRST PLACE

Until recently, workplace changes were largely driven by tactical needs such as saving money, attracting talent or increasing collaboration. As employers increasingly understand the strategic role that workplaces and work practices play in driving success, however, that is changing. This evolution has led to a variety of new and not-so-new approaches including open plan, desk sharing, telework and activity-based work.

Global space utilization rates of 50% or less point to the fact that most organizations have not responded effectively to inevitable organizational and marketplace changes. As a result, workplaces, work practices and work policies often fail to reflect reality and have not been optimized to produce the best results.

Today’s workplace is no longer one place. It is many places both within and outside the office.

SECOND PLACE

Jack Nilles, a former NASA rocket scientist who sought to solve the problem and associated pollution of traffic, coined the terms “telework” (the substitution of technology for travel) and “telecommuting” (the substitution of technology for commuter travel) in 1973. More than four decades later, nearly 80% of global knowledge workers report working remotely at least one day a week.³ Participation is greatest across North America, followed by Europe, the Middle East and Africa, and Asia-Pacific.

THE MANY FACES OF FLEXIBLE WORK

COWORKING SPACES OR HUBS, as they are often called in the U.K., are shared office spaces operated to create a community spirit among members. The setup is typically casual and open. Spaces are designed to encourage interaction and a sense of community. Most include amenities, meeting rooms, some private offices and social hours (complete with adult beverages). The cost is based on the frequency of use and packaged as monthly or long-term memberships.

A SERVICED OFFICE OR EXECUTIVE SUITE offers private offices, meeting rooms, shared staff and amenities, flexible lease terms (typically a minimum of one year, though some are shorter) and space for five to 40 employees. They are often located in premium office buildings that tenants could not otherwise afford. Most are designed to exude a professional atmosphere.

VIRTUAL OFFICES offer tenants a suite of services including a professional mailing address, phone answering, office equipment, and drop-in meeting and office space. They are often associated with executive suites but do not require users to sign a lease. Members typically include entrepreneurs, small businesses, freelancers and, increasingly, employees of medium and large organizations.

INCUBATORS are typically low- or no-cost spaces made available to startups. The incubator owner often takes a small equity stake in the venture, offers mentoring and coaching, and provides access to financing. Many incubators receive government funding aimed at encouraging entrepreneurship. They are often affiliated or partnered with a university.

ACCELERATORS provide promising startups with an immersive entrepreneurial environment, education, mentoring, networking opportunities and, typically, seed capital. Many receive government or corporate funding to advance promising ideas. Like incubators, they are often affiliated or partnered with a university.

HACKER AND MAKER SPACES are places where people with common interests come to work, collaborate, share technology and tooling, and learn from each other. Fees are typically membership-based, though some community or school-sponsored spaces are free.

JELLIES are informal gatherings of people who occasionally choose to hang out with others to network, work or converse. There is no cost to participate in a jelly and they are typically held in someone’s home or another informal setting.

figure 2

EFFECT OF REMOTE WORK FREQUENCY ON EMPLOYEE ENGAGEMENT

The highest engagement is among those who work remotely less than 20% of the time.

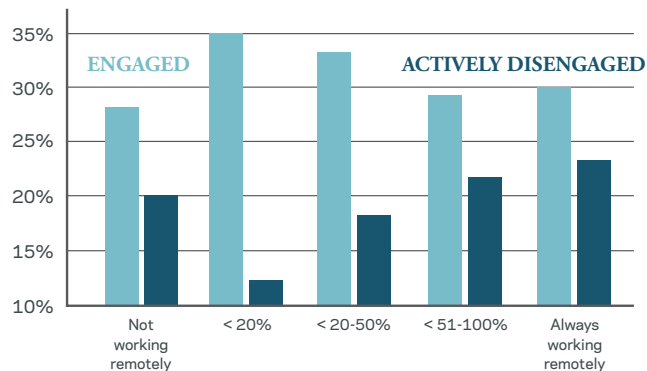
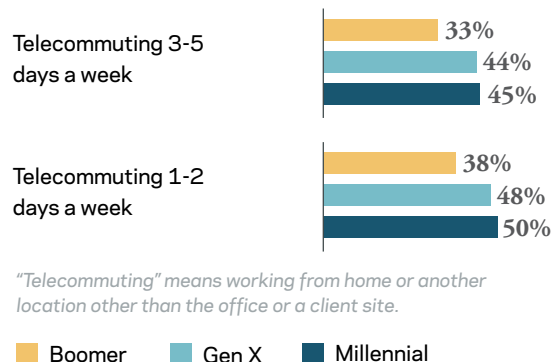


figure 3

PREFERENCE FOR FREQUENCY OF REMOTE WORK BY GENERATION



"Telecommuting" means working from home or another location other than the office or a client site.

According to Gallup research, remote work increases employee engagement, particularly for those who telework one to three days a week (See Figure 2: *Effect of Remote Work Frequency on Employee Engagement*). Meanwhile, global research by EY reveals that remote working one to two days a week is the most popular choice across generations (See Figure 3: *Preference for Frequency of Remote Work by Generation*).⁴

Statistics and trends in remote work are not well-documented. Yet a recent survey by PGI, a provider of web conferencing and collaboration technology solutions, showed that while home remains the most common location for remote work, nearly four in 10 remote workers choose shared workspaces, coffee shops and other on-the-go locations (See Figure 4: *Global Places for Remote Work*).⁵

THIRD PLACE

While many enjoy the comfort and convenience of working at home, it is often not an ideal solution. Finding a quiet place can be a challenge for some. Others miss the social aspects of a traditional workplace, the professional environment, reliable high-speed internet service and the opportunity to leave work behind at the end of the day.

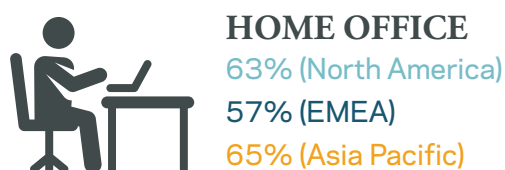
Many people began to search for other non-office alternatives. Coffee shops, hotel lobbies and other "third places" suddenly found themselves full of workers scrambling to plug in and sign on. Though some proprietors considered these patrons to be a drain on table turnover and Wi-Fi, many embraced the concept—even redesigning their spaces to accommodate their business guests.

Though these "third places" can be adequate for occasional uses, they are not an effective replacement for home or office. Issues related to security, noise and availability, in addition to the occasional glares from proprietors, make them less than ideal.

figure 4

GLOBAL PLACES FOR REMOTE WORK

When you work remotely, where do you go?



⁴EYGM Limited. (2015). *Global generations: A global study on work-life challenges across generations*. [http://www.ey.com/Publication/vwLUAssets/EY-global-generations-a-global-study-on-work-life-challenges-across-generations/\\$FILE/EY-global-generations-a-global-study-on-work-life-challenges-across-generations.pdf](http://www.ey.com/Publication/vwLUAssets/EY-global-generations-a-global-study-on-work-life-challenges-across-generations/$FILE/EY-global-generations-a-global-study-on-work-life-challenges-across-generations.pdf).

⁵PGI. (2015). 2015 PGI global telework survey. http://img03.en25.com/Web/PremiereGlobalServices/%7B7e70c99d-24b4-43c3-96f9-4c3a24698cf4%7D_2015_PGI_Global_Telework_Survey.pdf.

FOURTH PLACE

The earliest forms of shared workspaces were business incubators, first established in 1959.⁶ They were intended to stimulate commerce by grouping together symbiotic small businesses.⁷

Serviced offices and executive suites made their debut in the 1960s.⁸ Back in those days, when high-quality laser printers and copiers cost thousands of dollars, this model offered small business owners an attractive, inexpensive alternative to setting up their own office. For one bundled price, they received access to flexible office space that included shared services, the latest technology, amenities, receptionists and a prime business address. Lease commitments as short as a few months made this particularly appealing to startups and small businesses.

Servcorp, which offers both virtual offices and serviced offices, was founded in Australia in 1978 and today operates in more than 131 locations worldwide.⁹ Regus, currently the largest serviced office provider, with more than 2,700 locations in 106 countries, launched in Belgium in 1989.¹⁰ The company operated predominantly throughout Europe until it purchased HQ Global Workplaces in 2004 and established a presence in the U.S. The availability of such spaces has evolved over the years and varies by country, but small and medium-sized businesses generally dominate the tenant list.¹¹

COWORKING

The term coworking was coined in 1999 to describe computer-supported collaborative work. And the first coworking centers—the Hat Factory and Citizen Space, both in San Francisco—were established in 2006.¹²

In contrast to serviced offices, coworking spaces are largely open, collaborative, collegial and fun. Though some offer private office options, eight of 10 members opt for the open alternative.¹³ Another distinction between the two is how they charge. Serviced offices collect lease fees, while coworking spaces operate on a membership model.

Emergent Research, a firm that specializes in tracking and forecasting trends that impact small businesses, estimates that nearly one million coworking members and 11,000 coworking spaces exist today.¹⁴ Reports from the Global Coworking Unconference suggested a more modest 500,000 members and 8,000 spaces at the end of 2015, with those numbers expected to rise to 700,000 members and 10,000 spaces by October 2016.¹⁵ Both demand- and supply-side drivers are changing the how and where of work.



Photo courtesy of Matt McFarland

⁶Butcher, T., Dodson, J., Hurley, J., Potts, J., & Waters-Lynch, J. M. (2016, January). *Coworking: A transdisciplinary overview*. <http://dx.doi.org/10.2139/ssrn.2712217>.

⁷NAIOP Research Foundation. (2014, January). *Workplace innovation today: The coworking center*.

⁸Butcher, T., Dodson, J., Hurley, J., Potts, J., & Waters-Lynch, J. M. (2016, January). *Coworking: A transdisciplinary overview*. <http://dx.doi.org/10.2139/ssrn.2712217>.

⁹Servcorp. (2015). *Annual report of 2015*. http://www.servcorp.com.au/media/1409/annual_report_2015_asx.pdf.

¹⁰Regus. (2015). *Annual report and accounts 2015*. http://www.regus.com/images/Regus_plc_consolidated_report_and_accounts_2015_tcm304-58776.pdf.

¹¹Butcher, T., Dodson, J., Hurley, J., Potts, J., & Waters-Lynch, J. M. (2016, January). *Coworking: A transdisciplinary overview*. <http://dx.doi.org/10.2139/ssrn.2712217>.

¹²NAIOP Research Foundation. (2014, January). *Workplace innovation today: The coworking center*.

¹³Foertsch, C. (2015, November 20). First results of the new global coworking survey. *DeskMag*. <http://www.deskmag.com/en/first-results-of-the-new-global-coworking-survey-2015-16>.

¹⁴Small Business Labs. (August 2016). *Coworking forecast - 26,000 spaces and 3.8 million members by 2020*. <http://www.smallbizlabs.com/2016/08/coworking-forecast-44-million-members-in-2020.html>.

¹⁵DeskMag. (Retrieved August 12, 2016). *2016 Coworking Forecast* <http://www.deskmag.com/en/2016-forecast-global-coworking-survey-results>.

DEMAND-SIDE DRIVERS OF COWORKING

As work becomes increasingly untethered to a specific place, flexibility increases. More evolution than revolution, coworking is a component of the emerging ecosystem of “places of work.”

The rapid growth of coworking stems from a confluence of societal, economic, demographic and technological factors including:

- The rise of the contingent workforce
- Renewed interest in entrepreneurship and small business ownership
- A rift in the employee-employer contract
- Growth of the sharing economy
- Consumerization
- Changing business priorities
- Technological advances
- The scent of opportunity

MORE EVOLUTION THAN REVOLUTION, COWORKING IS A COMPONENT OF THE EMERGING ECOSYSTEM OF “PLACES OF WORK.”

RISE OF THE CONTINGENT WORKFORCE

According to the *Intuit 2020 Report*, 80% of global corporations are planning to significantly increase their use of contingent labor.¹⁶ There is already substantial evidence to support this projection.

After experiencing minimal growth between 1995 and 2005, the independent contractor portion of the workforce more than doubled between 2005 and 2015, and it is currently estimated at 16% to 17% of the total workforce. Amazingly, Princeton University researchers have determined that all the U.S. net employment growth between 2005 and 2015 has come from the contingent workforce—55% of whom are independent contractors.¹⁷

An increase in the contingent workforce is typical of recessionary periods, as employers are reluctant to add full-time staff and laid-off employees turn to freelancing to keep food on the table. Though the pattern usually reverses toward the end of a recession, a reversal has not yet occurred.

Nearly two in 10 contingent workers chose that path because unemployment was the alternative. Nevertheless, more than 80%

of dedicated independents report being satisfied with their work because of the autonomy and flexibility it affords. Over a quarter (28%) say flexibility is more important than making money, and another 26% believe that doing something they enjoy trumps having a fat paycheck.¹⁸

At the same time, workers dislike the rigidity, hierarchy and politics of the corporate world. They want to do what they like and be compensated for the results they achieve. And they increasingly want to give back to the world.

Estimates of the size of the contingent workforce vary, mainly because the definition of a contingent worker differs from one source to the next. Sources that include the self-employed, independent contractors and part-time workers—in addition to agency temps, direct-hire temps, on-call workers, day laborers and contract workers—suggest contingent workers account for 40% of the U.S. labor force.¹⁹ The U.S. is third only to the Philippines and India in the percentage of contingent workers.²⁰ In the context of coworking, however, the self-employed and independent contractors (including freelancers) are of primary interest.

Of significance for the coworking industry is that independent contractors and freelancers are generally older, better educated and higher earners than other types of contingent workers.²¹ And they are heavily concentrated in professions that are prime users of coworking spaces. Nearly half (46%) of self-employed individuals work in professional service or related occupations. Within that community, three groups have a concentration of self-employed workers above the national average of between 2% and 10%.²²

- Management occupations (22% are self-employed)
- Legal occupations (19% are self-employed)
- Arts, design, entertainment, sports and media occupations (31% are self-employed)²³

With relatively low barriers to entry, professional services and creative professions are ideal for employees seeking independence. Those same occupations account for more than 60% of coworking members.²⁴

¹⁶ Intuit. (2010, October). *Intuit 2020 Report*. http://http-download.intuit.com/http.intuit/CMO/intuit/futureofsmallbusiness/intuit_2020_report.pdf.

¹⁷ Katz, L. F., & Krueger, A. B. (2015, March 29). *The rise and nature of alternative work arrangement in the United States, 1995-2015*. http://scholar.harvard.edu/files/katz/files/katz_krueger_cws_v3.pdf.

¹⁸ Intuit. (2016, February). *Dispatches from the new economy: The five faces of the on-demand economy*. <http://www.slideshare.net/IntuitInc/dispatches-from-the-new-economy-the-five-faces-of-the-on-demand-economy>.

¹⁹ U.S. Government Accountability Office. (2015, April 20). *Contingent workforce: Size, characteristics, earnings and benefits*. <http://www.gao.gov/assets/670/669766.pdf>.

²⁰ ManpowerGroup. (2015). *Contingent workforce index 2015 global analysis*. <http://www.manpowergroup.com/wps/wcm/connect/5afeb12c-0df7-454d-88aa-419e6e048768/cwi-2015-report-manpowergroup.pdf?MOD=AJPERES>.

²¹ U.S. Government Accountability Office. (2015, April 20). *Contingent workforce: Size, characteristics, earnings and benefits*. <http://www.gao.gov/assets/670/669766.pdf>.

²² Department for Professional Employees. (2014). *Professionals in the contingent workforce, fact sheet 2014*. <http://dpeaflcio.org/programs-publications/issue-fact-sheets/professionals-in-the-contingent-workforce/>.

²³ Department for Professional Employees. (2014). *Professionals in the contingent workforce, fact sheet 2014*. <http://dpeaflcio.org/programs-publications/issue-fact-sheets/professionals-in-the-contingent-workforce/>.

MAKING THE BUSINESS CASE FOR A COWORKING CENTER

So you are thinking of starting a coworking center—or providing a similar environment in your workplace? To develop the business case, it's important to answer these questions about your goals and the business model.

WHO ARE YOU TRYING TO ATTRACT?

*What is your demographic?
Which industries are in your market?*



WHO IS THE TARGET MEMBER?

All employees? Individuals? Small companies? Conference space for local businesses? Incubation for startups?

WHAT IS THE VACANCY RATE IN THE AREA?

Are other coworking centers located in the area?



WHAT IS LACKING IN THE MARKET?

*Workspace?
Conference space?
Training space?
Informal and ad hoc meeting space?*



HOW WILL YOU CHARGE?

Supported by the building as a service to tenants?

Individual memberships?

Corporate memberships?

Rent from small businesses?



HOW ACCESSIBLE IS THE SPACE?

Are other coworking centers located in the area?

WHICH AMENITIES CAN YOU OFFER?

Coffee? Food? Copy services? A/V services? Meeting support?



IS THERE FOOD AND COFFEE SERVICE NEARBY?

WHO CAN ACCESS IT?

*Individual members? Walk-ins?
Building tenants? By invitation?
Rented to small businesses?
Corporate accounts?*

ARE THERE SECURITY ACCESS RESTRICTIONS?

WHICH SERVICES ARE OFFERED BY THE BUILDING?

The demand side of the rise in contingent work is driven by organizations that are increasingly attracted to contingent labor to:

- Fill the need for specialized, project-based talent
- Alleviate talent and skills gaps
- Reduce costs
- Increase agility during economic and business cycles
- Increase diversity
- Access talent during hiring freezes
- Address global business needs
- Retain retirement-age workers

RENEWED INTEREST IN ENTREPRENEURSHIP

Many claim that coworking's underpinning is the rise of the small business economy. But that belief flies in the face of the facts.

From 1994 to 2015, the U.S. unincorporated self-employment rate fell by more than 25%.²⁵ Globally, the story is similar. The self-employed, as a percentage of total Organization for Economic Cooperation and Development (OECD) employed, currently represent less than 16% of the total employed, down more than 8% since 2005 and 20% since 1991, when it accounted for more than one-fifth of employment.

One exception to the decline of self-employment is the U.K., where it has increased 12% since 2005 and now accounts for 14.6% of the workforce.

²⁴ Deskmag. (2016, May 5). *Coworking in the U.S. 2016*. <http://www.deskmag.com/en/2016-forecast-global-coworking-survey-results>.

²⁵ Bureau of Labor Statistics. (March 2016). *Self-employment in the United States*. <http://www.bls.gov/spotlight/2016/self-employment-in-the-united-states/pdf/self-employment-in-the-united-states.pdf>.

RIFT IN THE EMPLOYER-EMPLOYEE CONTRACT

During the 2008 global financial crisis, many skilled workers lost their jobs or experienced a reduction in salary and benefits. Some who turned to self-employment as a survival strategy discovered they liked the flexibility and control.

In the U.S., the enactment of the Affordable Care Act (ACA) in 2010 required reasonably priced health insurance to be made available through public and private healthcare exchanges by 2014. This legislation offered new opportunities for many who formerly depended on their employer for health insurance. Faced with poor coverage, high costs or a lack of options, many could not seriously consider self-employment before the ACA.

GROWTH OF THE SHARING ECONOMY

We have grown accustomed to sharing. We share cars via Uber and houses via Airbnb, which offers more rooms than Marriott and Starwood combined.²⁶ We even share our four-legged family members through Rover. Is staying in someone else's house that different from sharing office space?

Cloud-based platforms for sharers are becoming increasingly robust and easy to use, making it easier for buyers and global talent to come together. As a testament to the business model, CB Insights predicts Upwork Global, the largest online platform for talent and businesses to connect and collaborate, will be a "unicorn"—a name the industry gives to startups valued at over \$1 billion.²⁷

CONSUMERIZATION

The consumerization of work and place follows a similar consumerization of IT, a trend many employers fought and lost. Work is no longer a noun. It is a verb and employees are voting with their feet. People want choices and will leave if they don't get them. In an era of talent wars and skills shortages, employers must do all they can to create appealing work practices, work policies and workplaces.

CHANGING BUSINESS PRIORITIES

Large and medium-sized businesses are increasingly embracing workplace flexibility and remote work as strategic advantages that help them:

- **Attract and retain talent:** 73% of organizational leaders are concerned about the availability of skilled labor.²⁸
- **Increase employee engagement:** 70% of employees who are allowed to work away from the office sometimes or always are highly engaged and highly satisfied, compared to just 30% who are not given the option.²⁹
- **Reduce absenteeism and presenteeism:** A typical business loses 78 person-years of productivity annually for every 1,000 employees due to absenteeism and presenteeism (coming to work despite illness, injury or other distress). Credit Suisse found that flexible work reduced absenteeism by 30%.³⁰

73% OF ORGANIZATIONAL LEADERS ARE CONCERNED ABOUT THE AVAILABILITY OF SKILLED LABOR.

- **Increase employee productivity:** 96% of companies expect corporate real estate (CRE) executives to improve workplace productivity, 92% expect them to increase business productivity and 93% expect them to increase people productivity.³¹
- **Reduce real estate costs:** 77% of CRE leaders report pressure from senior management to reduce real estate and related costs.³²
- **Improve innovation:** 78% of large companies believe it is important to collaborate with entrepreneurs to drive innovation.³³
- **Increase agility:** 72% of CRE leaders report pressure from senior management to challenge their presumed space needs and 66% are being charged with increasing portfolio flexibility.³⁴
- **Reduce work-life conflict:** Nine in 10 employees say the flexibility to balance work and life issues is important (36%) or very important (55%) to their job satisfaction.³⁵ Global research by Brigham Young University showed that employees with the option to work remotely worked an average of 19 more hours each week before experiencing work-life conflict than those without the option (57 hours versus 38 hours).³⁶ Another peer-reviewed study provided conclusive evidence that control over where and when people work reduces work-life conflict without introducing life-work conflict.³⁷

²⁶ Stay with me. (2016, May 17). *The Economist*. <http://www.economist.com/news/business/21698307-online-rivals-whizz-ahead-hotels-try-be-both-big-and-nimble-stay-me>.

²⁷ CB Insights. (2015, August 23). *Fifty future unicorns*. <https://www.cbinsights.com/research-future-unicorn-companies>.

²⁸ PwC. (2015). *Annual global CEO survey*. <http://www.pwc.com/gx/en/ceo-survey/2015/assets/pwc-18th-annual-global-ceo-survey-jan-2015.pdf>.

²⁹ Steelcase. (2016). *Steelcase global report: Engagement and the global workplace*.

³⁰ IFMA Foundation. (2011). *Work on the move: Driving strategy and change in workplaces*. <http://foundation.ifma.org/docs/default-source/documents-for-download/work-on-the-move-small-file.pdf?sfvrsn=2> Transparency.

³¹ Jones Lang LaSalle. (2015). *Elevate to excellence: Global corporate real estate trends 2015*. <http://www.jll.eu/emea/en-gb/global-cre-survey-2015/download>.

³² Jones Lang LaSalle. (2015). *Elevate to excellence: Global corporate real estate trends 2015*. <http://www.jll.eu/emea/en-gb/global-cre-survey-2015/download>.

³³ Accenture. (2015). *Harnessing the power of entrepreneurs to open innovation*. <https://www.accenture.com/us-en/-/media/Accenture/next-gen/B20/Accenture-G20-YEA-2015-Open-Innovation-Executive-Summary.pdf>.

³⁴ Jones Lang LaSalle. (2015). *Elevate to excellence: Global corporate real estate trends 2015*. <http://www.jll.eu/emea/en-gb/global-cre-survey-2015/download>.

³⁵ Society for Human Resource Management. (2015). *Employee job satisfaction and engagement*. <https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2015-Job-Satisfaction-and-Engagement-Report.pdf>.

³⁶ Erickson, J. J., Ferris, M., Hill, J. E., & Holmes, E. K. (2010). Workplace flexibility, work hours, and work-life conflict: Finding an extra day or two. *Journal of Family Psychology*, Vol. 24, 349-358.

³⁷ Casper, L. M., Davis, K. D., Fan, W., Hammer, L. B., Hanson, G. C., Kelly, E. L., ... Okechukwu, C. (2014). Changing work and work family conflict: Evidence from the work, family, and health network. *American Sociological Review*, Vol. 79(3), 485-516. <http://asr.sagepub.com/content/79/3/485.full.pdf+html>.



Photo courtesy of Ari Burling

- **Reduce employee stress:** Stress is the number one employee health risk in every region except Asia Pacific, where it is second to lack of physical activity.³⁸ Stress has been called the “health epidemic of the 21st century” by the World Health Organization and is estimated to cost U.S.-based businesses up to \$300 billion a year.³⁹ It has a direct impact on absenteeism, presenteeism, medical costs, turnover, safety and engagement.⁴⁰ Research reveals that flexible work policies—specifically the ability to work remotely—significantly reduce employee stress.
- **Enhance disaster preparedness:** Remote work options are the cornerstone of many public and private sector continuity-of-operations plans. ISO standards also include home working and flexible work options.⁴¹ As a result of the U.S. General Service Administration’s mobile work program, 95% of employees were able to work remotely during winter storms that shut down most Washington, D.C., buildings.⁴² Remote work has been used to reduce traffic congestion during floods and papal visits in the U.K., transit strikes in Japan and political conventions in the U.S.

TECHNOLOGICAL INNOVATION

Technological innovation will continue to play a key role in enabling the work-anywhere movement. Coworking simply could not have happened without a myriad of technologies including cell phones, laptop computers and tablets, cloud-based applications and file storage, reliable internet access, data encryption and other security tools, social software and sharing platforms, web-conference and screen-sharing tools, and more.

Though use of some or all of these tools and technologies is common, the majority of organizations still have a long way to go in replacing their legacy systems, embracing remote work and providing the training necessary to support it.

The technologies themselves also have a long way to go. Dropped cell phone calls, dead batteries, unreliable sharing platforms, cross-platform compatibility issues, slow internet speeds and other all-too-common problems are a challenge to remote workers.

Over time, as new technologies evolve and adoption rates, reliability and ease of use improve, remote work will become more commonplace.

A SCENT OF OPPORTUNITY

The impressive growth of sharing economy startups such as Uber and Airbnb, and the staggering \$16 billion valuation of WeWork, the flagship of the coworking industry, have contributed to the dramatic growth of coworking. Investors, entrepreneurs and others rushing to capitalize on the trend, however, may simply be following the leader rather than doing their due diligence.

³⁸ Willis Towers Watson. (2016). *Employee health and business success: Making the connections and taking action*.

³⁹ Martin, J. (2012, August 2). Stress at work is bunk for business. *Forbes.com*. <http://www.forbes.com/sites/work-in-progress/2012/08/02/stress-at-work-is-bunk-for-business/#5d0ebb4e2c5d>.

⁴⁰ World Economic Forum. (2013, January). *The Workplace Wellness Alliance, making the right investment: Employee health and the power of metrics*. http://www3.weforum.org/docs/WEF_HE_WorkplaceWellnessAlliance_Report_2013.pdf.

⁴¹ International Organization Standardization. (2012, June 5). *ISO publishes new standard for business continuity management*. <http://www.iso.org/iso/news.htm?refid=Ref1587>.

⁴² Shive, D. (2016, January 28). Federal workforce on duty during winter storm Jonas. GSA Blog. <https://gsablogs.gsa.gov/gsablog/2016/01/28/federal-workforce-on-duty-during-winter-storm-jonas>.

SUPPLY-SIDE DRIVERS OF COWORKING

The primary supply-side driver of coworking is economic. Owners, investors, landlords, occupiers and CRE executives must mitigate the financial impact of the ebb and flow of economic and industry cycles.

For owners, investors and landlords, coworking:

- Represents an outlet for hard-to-lease spaces. About 55% of locations were vacant in excess of six months before the coworking lease was signed. Forty-five percent are situated in buildings more than 50 years old.⁴³ Ninety percent of leases during the past two years have been in Class B and C buildings.⁴⁴
- Can reinvigorate older spaces by adding buzz, a sense of community and a younger clientele.
- Attracts users that would not have otherwise been tenants, i.e., freelancers, entrepreneurs, small businesses and traveling employees. Sixty-three percent of members worked at home, a coffee shop or on the move prior to joining a coworking center.⁴⁵
- Can help reduce financial risk by adding diversity to the size and nature of a building's occupants.

For occupiers and CRE groups, coworking spaces:

- Offer a solution for underutilized space, monetize space that is being held for future expansion or make it possible to hold onto space during cyclical downturns.
- Create synergies between members and occupiers, i.e., complementary services, talent, diversity, innovation and creativity.
- Help attract younger workers. More than three-fourths of coworking centers are located in urban and mixed-use submarkets that cater to today's millennial workforce.⁴⁶
- Improve productivity: 71% of coworkers say they are more creative in a coworking space, 68% say they are better able to focus, 64% indicate they can complete tasks in a timelier manner and 62% report their standard of work is higher.
- Serve as a testing ground for new workplace ideas.
- Inform workplace design by demonstrating the kind of space people are willing to pay for.

- Offer alternatives for contractors and visiting employees.
- Increase community engagement.
- Offer alternatives to first, second and third places for employees seeking workplace flexibility.
- Accommodate employees while traveling.
- Help reduce the stress, pollution and unpredictability of commuter travel by offering an alternative to central business district locations.
- Provide better connectivity and collaboration technology for remote employees.
- Help right-size owned and leased spaces.
- Alleviate concerns about employees working at home.
- Offer an alternative to capitalizing off-balance-sheet leases when new accounting rules go into effect beginning in 2018.
- Reduce the need for owned and leased space to accommodate regional and global outposts.
- Provide an inexpensive regional presence where local licensing is required.

With so many compelling demand- and supply-side drivers, it's no wonder that many are drawn to creating coworking spaces of their own.

⁴³ Deskmag. (2016, May 5). *Coworking in the U.S. 2016*. <http://www.deskmag.com/en/2016-forecast-global-coworking-survey-results>.

⁴⁴ Jones Lang LaSalle. (2016, May). *Shared workspaces*. <http://www.us.jll.com/united-states/en-us/Research/US-Shared-workspace-2016-JLL.pdf?469a8209-e847-4cf7-9ae9-09deb6f990d9>.

⁴⁵ Deskmag. (2016, May 5). *Coworking in the U.S. 2016*. <http://www.deskmag.com/en/2016-forecast-global-coworking-survey-results>.

⁴⁶ Jones Lang LaSalle. (2016, May). *Shared workspaces*. <http://www.us.jll.com/united-states/en-us/Research/US-Shared-workspace-2016-JLL.pdf?469a8209-e847-4cf7-9ae9-09deb6f990d9>.



WeWork New York location; image used courtesy of WeWork

ABOUT THE OWNERS

The majority of coworking space operators are small. Less than one-third (32%) are full-time operators, up from 20% in 2012.⁴⁷

When surveyed by Deskmag, the largest online magazine about coworking, center owners cited the following as their motivations for starting a center:⁴⁸

- 73% want to be connected with others
- 67% like the coworking movement
- 67% like to improve the work life of others
- 29% believe it offers opportunities to find clients
- 20% say it allows them to afford a better office

On the other end of the owner spectrum are the industry behemoths: Regus, Premier and Servcorp. Together, they make up 36% of the total European market.⁴⁹ While some argue that the business model for these operators puts them in the category of serviced offices, they are following the coworking model.

- Established in 1989, Belgium-based Regus operates 2,768 centers in 977 cities in 106 countries.⁵⁰

- Established in 1978, Australia-based Servcorp offers executive suites, virtual offices, coworking and meeting rooms that can be rented by the hour or day. With 131 locations and 4,920 offices across 21 countries, the company projects the addition of 320 offices by the end of 2016.⁵¹
- Founded in the U.S. in 2010, WeWork offers coworking spaces and some private offices. According to its website, the company has more than 60,000 users and 112 locations across 32 cities and 13 countries.⁵²

⁴⁷ Foertsch, C. (2015, November 20). First results of the new global coworking survey. Deskmag. <http://www.deskmag.com/en/first-results-of-the-new-global-coworking-survey-2015-16>.

⁴⁸ Foertsch, C. (2015, November 20). First results of the new global coworking survey. Deskmag. <http://www.deskmag.com/en/first-results-of-the-new-global-coworking-survey-2015-16>.

⁴⁹ The Instant Group. (2016). *Flexible workspace review—U.S. 2016*. <http://www.theinstantgroup.com/media/205246/us-flexible-office-review-2016.pdf>.

⁵⁰ Regus. (2015). *Annual report and accounts 2015*. http://www.regus.com/images/Regus_plc_consolidated_report_and_accounts_2015_tcm304-58776.pdf.

⁵¹ Servcorp. (2015). *Annual report of 2015*. http://www.servcorp.com.au/media/1409/annual_report_2015_asx.pdf.

⁵² WeWork (Retrieved 2016, September 5). <https://v2.wework.com/plans>; <https://v2.wework.com/locations/>.

The lines between coworking and the serviced office market are blurring as each type of provider morphs to grab a piece of the other's pie and all woo large corporate users.

WeWork and other coworking centers are adding private office options. At the same time, about one in 10 U.S. serviced office providers has begun to incorporate coworking into their spaces.⁵³

Competition is heating up, and it's not just from the usual suspects. Hotel chains, corporate real estate developers, owners, banks, fitness clubs, retailers, libraries and restaurants are exploring whether the coworking model can help them engage customers (See Figure 5: *The Unusual Suspects: Unique Coworking Locations*).⁵⁴⁻⁵⁷

Some of these new entrants could be formidable competitors, as many are not in it for the money—at least, not directly. They view coworking as a way to bring potential customers through their doors. For example:

- National Australian Bank in Sydney transformed its lobby into coworking and meeting spaces for the public. The bank encourages its staff to use the space alongside existing and potential customers. The Royal Bank of Scotland and BNP Paribas Fortis are also exploring coworking options.⁵⁸

SOME OF THESE NEW ENTRANTS COULD BE FORMIDABLE COMPETITORS, AS MANY ARE NOT IN IT FOR THE MONEY—AT LEAST, NOT DIRECTLY.

- State Farm's Next Door in Chicago's Lincoln Park neighborhood is a coffee shop that offers classes and access to help from the company's investment and insurance advisors. Use of this space is free.⁵⁹
- Now that faxes are practically obsolete and Wi-Fi is universal, hotel business centers aren't nearly as busy. Some hotels are opening them to the public, hoping that visitors might also purchase food or a beverage, shop in the hotel stores or even learn how to book a hotel meeting room.

figure 5

THE UNUSUAL SUSPECTS: UNIQUE COWORKING LOCATIONS



*In collaboration with Workbar

**In collaboration with Spacious

- The Porter executive lounge in Australia originated through a partnership between a furniture manufacturer that wanted to market its products and a building owner that wanted to draw people into the building. The club-like setting creates an extraordinarily upscale, flexible coworking space.

In addition to the social and community aspects of coworking, opportunities for learning are offered by many operators:

- Geekdom, a San Antonio-based coworking center, offers courses on leadership, yoga and various programming languages.
- Betamore in Baltimore positions itself as a coworking campus for entrepreneurs. With classes open to the community, its goal is to boost Baltimore's tech community.
- The DaVinci Institute in Westminster, Colorado, offers events such as a night with a futurist, educational workshops and courses on coding at its coworking center.

Specialty coworking centers are evolving beyond the tech sector. There are centers that focus on the maker community, fashion design, accounting, music, fitness and more.

⁵³ The Instant Group. (2016). *Flexible workspace review—U.S. 2016*. <http://www.theinstantgroup.com/media/205246/us-flexible-office-review-2016.pdf>.

⁵⁴ Fitzgerald, D. & Kapner, S. (2016, April 4). Staples finds new use for its stores: Office space. *Wall Street Journal*. <http://www.wsj.com/articles/staples-finds-new-use-for-its-stores-office-space-1459742565>.

⁵⁵ Said, C. (2014, July 6). More hotels innovate with meeting spaces. *San Francisco Chronicle*. <http://www.sfgate.com/business/article/More-hotels-innovate-with-meeting-spaces-5601846.php>.

⁵⁶ Bachman, R. (2016, June 29). *When your gym is your office*. <http://www.wsj.com/articles/when-your-gym-is-your-office-1467128143>.

⁵⁷ Spacious. (Retrieved 2016, July 28). <https://www.spacious.com/spaces>.

⁵⁸ eOffice. (2016, January 27). *Top 3 banks embracing coworking*. <http://blog.eoffice.net/2016/01/top-3-banks-embracing-coworking/>.

⁵⁹ Moore, A. (2014, April 10). What you may not know about your neighbor. *Crain's Chicago Business*. <http://www.chicagobusiness.com/article/20140410/issue01/140409709/what-you-may-not-know-about-this-next-door-neighbor>.

WORKING AT A COWORKING CENTER

When searching for a coworking center that will be the best fit for you, ask yourself these questions.

WHICH TYPE OF COMMUNITY DO YOU WANT TO JOIN?

Incubators and accelerators for startups
Community coworking environments
(shared offices for making loose connections and supporting each other)
Serviced or curated offices
Business continuity space
Surplus space turned to spec space
Managed workspace
Makerspaces



DO YOU NEED SPACE FOR...?

Individuals? Small companies?
Conference space for local businesses?
Incubation for startups?

HOW IMPORTANT IS...?

Food service? Coffee? Copy services?
A/V services? Meeting support?



WHAT TYPE OF ACCESS DO YOU WANT?

Individual memberships? Walk-ins?
Tenants of the building? By invitation?
Rented to small business? Corporate accounts?

IS SECURITY A CONCERN?

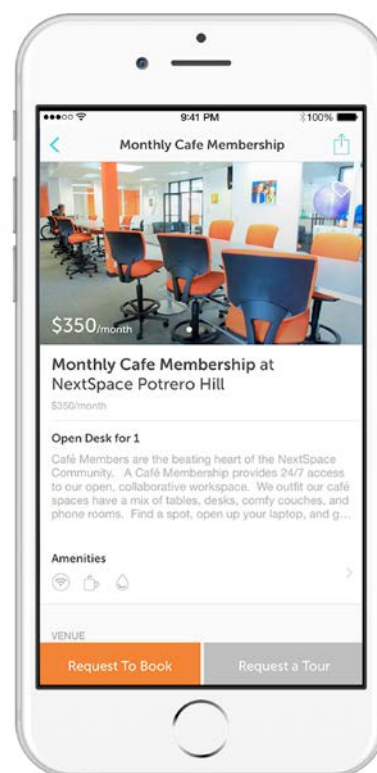
WHAT ARE YOU WILLING TO PAY?

Colleges and universities are joining the coworking game. The University of Pennsylvania has converted a former laboratory and research warehouse into a 58,000-sq.-ft. incubator and lab where entrepreneurs, researchers and innovators can collaborate to commercialize research discoveries. The new Pennovation Center offers coworking spaces, private offices, lab seats and start-up “garages” along with amenities including a café, high-tech meeting rooms, access to lab instruments and equipment, and networking and investor events.

With all of these space choices, how does one decide what is best? San Francisco-based LiquidSpace has an answer. Similar to how Airbnb matches heads with beds, LiquidSpace can match workers and workplaces at the click of a smartphone button. Its service includes coworking spaces, conference rooms and even entire offices (See Figure 6: LiquidSpace App).

The company’s website indicates they have helped individuals and teams from more than 50,000 companies find and book over two million spaces and places.⁶⁰

figure 6



⁶⁰ LiquidSpace. (Retrieved 2016, August 11). <https://liquidspace.com/aboutus>.



Photo courtesy of Matt McFarland

ABOUT THE COWORKERS⁶¹

The majority of coworkers come because they want to feel part of a community. They are looking to connect, socialize, share knowledge and brainstorm—particularly the entrepreneurs and freelancers (74% and 77% respectively). Employee coworkers are the least engaged in the coworking community (60%).

Many are also hoping to make connections that could lead to job and project opportunities. (See *Figure 7: What Coworkers Want From the Community*).⁶²

A typical coworker is:

- 37 years old (five years younger than the average employee)
- Male (62%)
- In a creative or professional service profession (31%)
- An above-average earner
- Happier than a non-coworker (79% versus 57%)

More than half the members of coworking centers are employees—up from just over one-third in 2012. But the majority have migrated from a home office (45%) rather than a traditional office (37%). Most (69%) work at the coworking center three or more days a week; 36% work there every day. The majority choose to work in open space (76%) rather than a private office.

What members like most about coworking is:

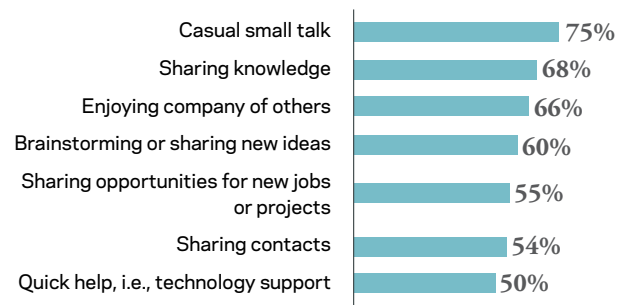
- Interaction with others (74%)
- A community (71%)
- Being with like-minded people (58%)
- Basic office infrastructure (58%)
- Random discoveries (48%)

Having a good internet connection and being close to home are particularly important to U.S. members.

figure 7

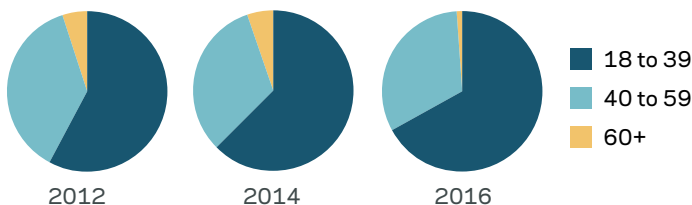
WHAT COWORKERS WANT FROM THE COMMUNITY

Top seven items members expect from other members



ABOUT THE COWORKERS

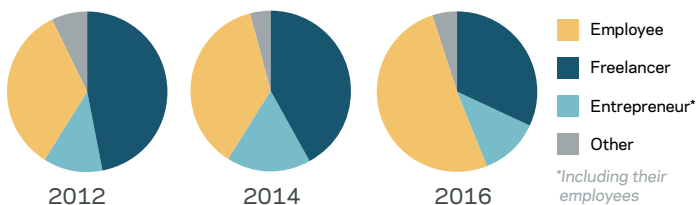
Age (they're getting younger, but not as young as you might think)



AVERAGE AGE OF A U.S. ...



Going corporate? Over half of coworking members are now employees (vs. freelancers or entrepreneurs)



MOST EMPLOYEES ARE UNTETHERED:



What They Do...



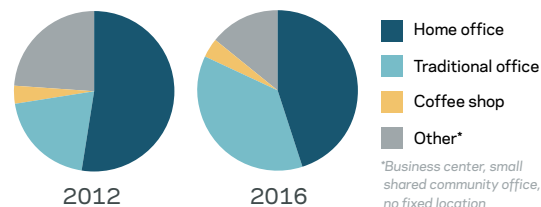
THANKS TO DESKMAG FOR PROVIDING THIS DATA. MORE: DESKMAG.COM.

5+

36% COME TO THE CENTER 5 OR MORE DAYS A WEEK



Where They Worked Before...



Center Loyalty



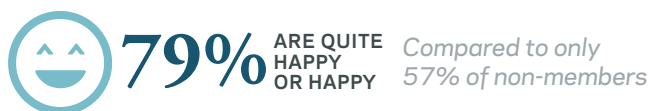
Rating Their Spaces



How They Work



High Giggle Factor



What They Like...

A COMMUNITY
INTERACTION WITH OTHERS
LIKE-MINDED PEOPLE
BASIC OFFICE INFRASTRUCTURE
RANDOM DISCOVERIES



⁶¹ Deskmag. (2016, February 26). Deskmag's global coworking survey 2016: CU Asia. <http://www.slideshare.net/carstenfoertsch/global-v-asian-results-the-global-coworking-survey-cu-asia-2016>.

⁶² Foertsch, C. (2015, November 20). First results of the new global coworking survey. Deskmag. <http://www.deskmag.com/en/first-results-of-the-new-global-coworking-survey-2015-16>.

ABOUT THE CENTERS⁶³

The fundamental business model for coworking is to buy low and sell high. Owners lease a large space and rent it out, in small chunks, for more than it costs. The average lease duration is 62 months, while the average member stays 20 months.⁶⁴ The challenge is to simultaneously expand, maintain a sense of community and replace non-renewing members.

The competition is often fierce and barriers to entry, such as capital requirements, are low. About half of new purveyors spent less than \$50,000.

Yet nearly 50% of coworking owners will need to renegotiate their leases in the next 12 months and the other half will come due in the next two to three years. Those who signed leases when the cost of space was low and landlord concessions were high could

experience sticker shock, particularly as they look to expand. While 55% of spaces were vacant for six months or more when these centers launched, new coworking locations may encounter a much different market.

Saturation is becoming an issue. Coworking centers with low satisfaction rates will need to up their game and new entrants must undertake thorough due diligence on market demand.

The current reality is that only one in four centers is profitable and 23% lose money. The length of time a center has been opened may play a role. Servcorp's annual report indicates that it takes two to three years for a new office to break even.⁶⁵

ABOUT THE CENTERS

Getting Started



8.3

MONTHS
BEFORE
OPENING



\$98K

AVERAGE
INVESTMENT



6.1

AVERAGE # OF
MEMBERS IN
THE FIRST WEEK

The Buildings They Occupy



55%

WERE VACANT 6+ MONTHS
BEFORE MOVING IN

62

MONTH
AVERAGE
LEASE

64%

ARE LOCATED IN
COMMERCIAL BUILDINGS

Expansion Plans (2016)

62%

WANT TO
EXPAND

EXPAND INSIDE SPACE
MOVE TO LARGER LOCATION
ADD LOCATIONS



NEW MEMBERS
IN 2015

Size



75

AVG. # OF
MEMBERS
PER SPACE



64

AVG. # OF
DESKS
PER SPACE

OPEN SPACE: 49% PRIVATE OFFICE: 18% MEETING SPACES: 17%
EVENT SPACES: 8% CLASSROOMS: 4% OTHER: 5%



77%

IN AN URBAN
LOCATION



9-10

AVERAGE
STAFF



\$42K

AVERAGE
MONTHLY
INCOME

THANKS TO DESKMAG FOR PROVIDING THIS DATA. MORE: DESKMAG.COM.

⁶³ Deskmag. (2016, February 26). Deskmag's global coworking survey 2016: CU Asia. <http://www.slideshare.net/carstenfoertsch/global-v-asian-results-the-global-coworking-survey-cu-asia-2016>.

⁶⁴ Deskmag. (2016, May 5). Coworking in the U.S. 2016. <https://dl.dropboxusercontent.com/u/64387613/Coworking%20Survey%20Results/DESKMAG%20GCUC%20GLOBAL%20COWORKING%20SURVEY%20PRESENTATION%202016%20SLIDES.pdf>.

⁶⁵ Servcorp. (2015). Annual report of 2015. http://www.servcorp.com.au/media/1409/annual_report_2015_asx.pdf.



Photo courtesy of Matt McFarland

HISTORIC AND PROJECTED GROWTH OF COWORKING

According to The Instant Group, consultants in the global flexible workspace market, the coworking market now totals about \$21 billion and shows compound growth of about 21% in the past five years.⁶⁶

The U.S., the U.K. and Australia are the largest developed coworking markets. India, Brazil and Malaysia are the three largest emerging markets. China, Germany, Mexico, France, Turkey, Singapore and Italy follow.

By regions, these workspaces are distributed:

- North America: 31%
- U.K.: 29%
- EMEA: 21%
- APAC: 15%
- Latin America: 4%

While APAC represents a relatively small part of the total market, growth is particularly strong in Hong Kong, where the city's 170 flexible offices (up 50% over two years) are only slightly behind New York's 217 locations.

Emergent Research predicts the number of coworking centers will total more than 26,000 by 2020 (a 24% compound growth rate) and

memberships will total more than 3.8 million (a 41% compound growth rate).⁶⁷ The firm attributes the difference in those growth rates to:

- A trend toward larger spaces
- The expansion of existing spaces
- Better space utilization

Though the projected growth is impressive, it assumes a slowing from historical growth patterns in centers, members and members per space.

If correct, the forecast would represent an eventual office market penetration rate of 2% to 4%.

THE NUMBER OF COWORKING
CENTERS WILL TOTAL MORE
THAN 26,000 BY 2020 (A 24%
COMPOUND GROWTH RATE).

⁶⁶ The Instant Group. (2016). *Flexible workspace review—U.S. 2016*. <http://www.theinstantgroup.com/media/205246/us-flexible-office-review-2016.pdf>.

⁶⁷ Small Business Labs. (August 2016). *Coworking forecast - 26,000 spaces and 3.8 million members by 2020*. <http://www.smallbizlabs.com/2016/08/coworking-forecast-44-million-members-in-2020.html>.

CORPORATE COWORKING

While some news headlines portend coworking as the end of the traditional corporate office, this characterization is premature and inaccurate. It's true that some large employers have dipped a toe into coworking waters, but none has jumped in with both feet.

Based on a review of recent news articles, research reports and other publications, here's a sampling of how large organizations are using coworking:

- Silicon Valley Bank rents about 200 desks in WeWork offices. According to *The Wall Street Journal*, it represents WeWork's largest enterprise client.⁶⁸
- *Contract*, a leading publication on commercial interior design and architecture, writes, "For some larger organizations, coworking provides an attractive solution." The example the magazine cites is the American Society of Interior Designers, which sold its building in Washington, D.C., and used a coworking space for a temporary office to house 25 people.⁶⁹
- Delta Air Lines reported using WeWork as a temporary home for a few team members until it could find permanent space. Dropbox had a presence at the center, too.⁷⁰
- KPMG rents about 75 desks at WeWork Manhattan.⁷¹ The company has no current plans to expand the model to the rest of its 29,000 U.S. employees, but may redesign some offices to look more like WeWork spaces.⁷²
- General Electric moved 20 workers into a Boston WeWork space while its permanent space was being finished.⁷³
- Cognizant Technology Solutions Corp houses a small number of employees in WeWork offices.⁷⁴
- Serendipity Labs reports having members from PepsiCo, Microsoft and Heineken.⁷⁵ *Advertising Age*, however, reported that PepsiCo and Microsoft's Bing were brought in as sponsors "to keep overhead low." Such involvement did not represent large corporations embracing the coworking concept as some have claimed.⁷⁶

- PwC, Steelcase, Accenture, Amway, AT&T, Ericsson and Twitter are reported to have some employees working from coworking centers.⁷⁷

Culture fit goes both ways. WeWork reportedly has turned down would-be corporate members because it feared they would change the feel of the space.⁷⁸

Some large employers have created their own approaches to coworking:

- AT&T operates six Foundry™ Innovation Centers whose aim, according to the Foundry's website, is to "connect with cutting-edge innovators and technologies that will deliver new valuable products and services to our customers."
- Zappos invites the public to share its corporate offices and other spaces in hopes of making its employees smarter, happier, more productive and more creative.⁷⁹
- Google offers what it calls "Campus" in Seoul, Tel Aviv, Madrid, Sao Paulo, Warsaw and London. These facilities comprise membership-based coworking, accelerator space, event and classroom space, and even a lab where developers can test their applications on different devices.

Though it's true that some large companies are testing the waters with coworking as both provider of space and user of other spaces, the level of activity does not indicate a workplace paradigm shift.

⁶⁸ Feintzeig, R. (2016, August 15). WeWork to big companies: Work with us. *The Wall Street Journal*. <http://www.wsj.com/articles/wework-to-big-companies-work-with-us-1471303282>.

⁶⁹ Sykes, K. (2014, August 22). Coworking: A workplace paradigm shift. *Contract*. <http://www.contractdesign.com/practice/design-practice/Coworking-A-Workpla-11471.shtml>.

⁷⁰ Khouri, A. (2016, April 16). The new corporate workplace: Beers on tap, bring your dog to work and a short-term lease. *Los Angeles Times*. <http://www.latimes.com/business/la-fi-corporate-coworking-20160416-story.html>.

⁷¹ Clark, P. (2016, February 19). Co-Working spaces are going corporate. *Bloomberg*. <http://www.bloomberg.com/news/articles/2016-02-19/co-working-spaces-are-going-corporate>.

⁷² Feintzeig, R. (2016, August 15). WeWork to big companies: Work with us. *The Wall Street Journal*. <http://www.wsj.com/articles/wework-to-big-companies-work-with-us-1471303282>.

⁷³ Clark, P. (2016, February 19). Co-Working spaces are going corporate. *Bloomberg*. <http://www.bloomberg.com/news/articles/2016-02-19/co-working-spaces-are-going-corporate>.

⁷⁴ Feintzeig, R. (2016, August 15). WeWork to big companies: Work with us. *The Wall Street Journal*. <http://www.wsj.com/articles/wework-to-big-companies-work-with-us-1471303282>.

⁷⁵ Clark, P. (2016, February 19). Co-Working spaces are going corporate. *Bloomberg*. <http://www.bloomberg.com/news/articles/2016-02-19/co-working-spaces-are-going-corporate>.

⁷⁶ Zmuda, N. (2012, September 17). Pepsi goes native in Silicon Alley. *Advertising Age*. <http://adage.com/article/digital/pepsi-native-silicon-alley/237222/>.

⁷⁷ Sullivan, J. (2013, April 15). Corporate coworking — Is it calculated brilliance, or foolishness? *ERE Media*. <http://www.ere-media.com/ere/corporate-coworking-is-it-calculated-brilliance-or-foolishness/>.

⁷⁸ Feintzeig, R. (2016, August 15). WeWork to big companies: Work with us. *The Wall Street Journal*. <http://www.wsj.com/articles/wework-to-big-companies-work-with-us-1471303282>.

⁷⁹ Lindsay, G. (2013, February 8). From Zappos: 4 simple hacks to foster office collaboration. *Fast Company's Co.Design*. <http://www.fastcodesign.com/1671797/from-zappos-4-simple-hacks-to-foster-office-collaboration>.

figure 8

REGUS VS. SERVCORP STOCK PERFORMANCE



INDUSTRY RISKS

The multibillion-dollar question is where this is going, or as *Bloomberg Businessweek* asked, “Is This the Office of the Future or a \$5 Billion Waste of Space?”⁸⁰

Though this paper is not intended to be an investor prospectus or to serve as the sole basis for any business decisions, the following is fashioned after the Securities and Exchange Commission’s “requirement of disclosure of risks,” something any organization that wants to raise investment capital from the public is required to publish. Some of the items below were included in Regus’ 2008 prospectus.⁸¹

URBAN MIGRATION TRENDS

Industry experts are divided on what will happen to the living-working preferences of millennials as they age. According to a report by PwC and the Urban Land Institute: “A healthy amount of disagreement exists about what will happen. One camp is convinced that the millennials will revert to the mean and want private offices and will move to the suburbs to raise families. The other side feels like they will continue with the same behavior they have exhibited. But the key is that we are talking about a large generational cohort that will evolve and segment over time. Painting them with too broad a brush will lead to misplaced expectations—as it has with the baby boomers. One size does not fit all millennials.”⁸²

Though 37% of millennials prefer city living to suburban living (29%), surveys are beginning to show a change in preference.⁸³

- A smaller number of millennials prefer to live in the city.
- A larger number of millennials prefer to live in the suburbs.
- Sixty percent of millennials expect to live in a detached single-family home five years from now.

ECONOMIC DOWNTURN

Coworking has not yet been tested through the complete cycle of an economic downturn. Looking to the serviced office industry for clues of what might happen, Regus has survived two recessions. After the burst of the dotcom bubble, however, it filed for Chapter 11 bankruptcy protection for its U.S. business segment in 2003. Regus restructured and emerged from bankruptcy a year later.

According to *The Independent*, a leading property analyst said: “The business concept is a good one. But they have been badly hurt by taking on too many leases towards the top of the market in the U.S. and then seeing a fall in revenues per available workstation [the company’s key sales measure] by the changing economy.”

The same source reported Regus’ founder admitting: “We made a mistake. We over-expanded. We put our hands up and said we were wrong.”⁸⁴ How coworking space would fare under the same circumstances remains to be seen.

Regus and Servcorp fared better in the 2008 recession. In terms of stock performance, both have recovered from their lows, though the share price growth of Servcorp has outpaced that of Regus. Still, it wasn’t until nearly 2016 that either stock returned to its pre-2000 level (*See Figure 8: Regus vs. Servcorp Stock Performance*).

⁸⁰ Rice, K. (2015, May 21). Is this the office of the future or a \$5 billion waste of space? *Bloomberg Businessweek*. <http://www.bloomberg.com/news/features/2015-05-21/wework-real-estate-empire-or-shared-office-space-for-a-new-era->

⁸¹ Regus. (2008, September). *Regus plc*. http://www.regus.com/images/Prospectus092008_tcm304-14811.pdf.

⁸² PwC & Urban Land Institute. (2015). *Emerging trends in real estate: US and Canada 2015*. <http://uli.org/wp-content/uploads/ULI-Documents/Emerging-Trends-in-Real-Estate-2015.pdf>.

⁸³ PwC & Urban Land Institute. (2016). *Emerging trends in real estate: US and Canada 2016*. <http://uli.org/wp-content/uploads/ULI-Documents/Emerging-Trends-in-Real-Estate-United-States-and-Canada-2016.pdf>.

⁸⁴ Mesure, S. (2002, September 17). A bad day in the office for Mr. Dixon as Regus shows it is not recession-proof. *Independent*. <http://www.independent.co.uk/news/business/analysis-and-features/a-bad-day-in-the-office-for-mr-dixon-as-regus-shows-it-is-not-recession-proof-177312.html>.

INDUSTRY CANNIBALIZATION

When a coworking center brings in people who would not otherwise be housed in paid office space, there are benefits for CRE groups. Approximately 63% of coworkers fall into this category, with most coming from home or third places. Yet the 37% who come from a traditional office (up from 22% in 2012) represent a net loss to their landlord. The same is true when a member of one center leaves to join another. While the net effect on coworking is neutral, there is a net loss to the former center unless that person stays in the same franchise.

As coworking expands and matures, predation outside the coworking market may play an increasing role. As coworking businesses expand, they may graduate into traditional leases.

MARKET SATURATION

Market saturation is already happening in smaller towns and cities in established markets. Eighty-five percent of U.S. coworkers in places with populations of less than one million people say there is adequate or too much coworking space available. In larger areas, however, 37% believe there isn't enough. Yet 27% of global coworking spaces plan to expand in 2016. These expansions could create problems for older, less desirable or poorly located space.⁸⁵

MARKET SATURATION IS ALREADY HAPPENING IN SMALLER TOWNS AND CITIES IN ESTABLISHED MARKETS.

Only about half (52%) of coworkers give their spaces top ratings (nine or 10 stars on a 10-star scale). Among the other half, 35% get seven to eight star ratings and 13% get one to six stars. To date, members have mostly remained loyal to their community—even if they did not rate it highly. As existing centers continue to age and markets become saturated, members may not be as loyal to those that fail to please.

SHORT-TERM INCOMES VS. LONG-TERM OBLIGATIONS

The success of the coworking model is predicated on being able to lease space at a reasonable rate, typically with a 60-month lease, and to sublease space in the form of memberships for much higher rates with terms as short as a month. Their costs are mostly fixed and their income is highly variable. Both of these risk factors could prove troublesome in periods of rising lease rates or an economic downturn.

figure 9

EMPLOYMENT GAINS AND LOSSES FROM STARTUPS, JUNE 1993 TO MARCH 2015



SMALL BUSINESS FAILURE RATES

Freelancers and small business owners account for 44% of coworking memberships. To a large extent, a coworking center's success depends on the success or failure of its members. During the past three decades, the gap between the number of firm births and firm deaths has closed substantially, largely due to the decline of the former.⁸⁶ Contrary to popular belief, after peaking in the late 1990s the number of jobs created from startups has experienced an overall decline. The decrease in start-up employment during the latest recession was the largest in history (*See Figure 9: Employment Gains and Losses from Startups, June 1993 to March 2015*).⁸⁷

According to OECD's most recent data, self-employment (as a percent of the total employed) dropped precipitously between 1991 and 2013.⁸⁸

Three in 10 U.S. businesses fail in their first two years and nearly half fail in the first five years.⁸⁹ Though the credit risk to a center's owner is likely minor given the short-term nature of memberships, business failures disrupt the steady flow of income and place a continuing burden on a center's owner to find new members.

The global rate of business formation has slowed. Kauffman researchers suggest part of the problem stems from the fact that, on average, U.S. millennials have delayed owning a home, which traditionally has been a prime source of collateral and savings that can be used for starting a new business.⁹⁰

⁸⁵ Deskmag. (2016, May 5). *Coworking in the U.S. 2016*. <https://dl.dropboxusercontent.com/u/64387613/Coworking%20Survey%20Results/DESKMAG%20GCUC%20GLOBAL%20COWORKING%20SURVEY%20PRESENTATION%202016%20SLIDES.pdf>.

⁸⁶ FactCheck.org. (2015). *A GOP talking point turned false*. <http://www.factcheck.org/2015/11/a-gop-talking-point-turned-false/>.

⁸⁷ U.S. Department of Labor, Bureau of Labor Statistics. (2016, April 28). *Entrepreneurship and the U.S. economy*. <http://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>.

⁸⁸ The World Bank. (2016). [Graph illustration of self-employment rate in the U.S.]. *Self-employed, total (% of total employed)*. <http://data.worldbank.org/indicator/SL.EMP.SELF.ZS?locations=US&view=chart>.

⁸⁹ U.S. Department of Labor, Bureau of Labor Statistics. (2016, April 28). *Entrepreneurship and the U.S. economy*. <http://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>.

⁹⁰ Harrison, J.D. (2015, February 12). *The decline of American entrepreneurship in five charts*. *Washington Post*. <https://www.washingtonpost.com/news/on-small-business/wp/2015/02/12/the-decline-of-american-entrepreneurship-in-five-charts/>.

COMPANY LIFESPAN SHORTENING

We are witnessing a major shift in business philosophy. In addition to the decrease in startups, many of today's businesses aren't started with a goal of lasting forever. Their leaders plan to germinate an idea, develop it, sell it, make their money and move on to another venture.

INTEREST RATES AND COST OF CAPITAL

Higher interest rates are inevitable. More than 60% of the real estate experts surveyed by PwC believed rates would increase moderately in 2016. More than 70% anticipated moderately higher rates by 2021 and about 20% expected substantially higher rates by 2021.⁹¹ As rates increase, so will the cost of capital. While a minority of coworking spaces are financed with professional investor (11%) or bank money (7%),⁹² those that now have a proven track record and are looking to expand may be inclined to seek outside financing. A rise in interest rates may also mean an increase in leasing costs as building owners pass on increased costs.

FUTURE LEASING COSTS

Rents were lower and vacancies were significantly higher when most coworking centers first negotiated their leases. There is evidence that the current economic climate will negatively impact new leases.

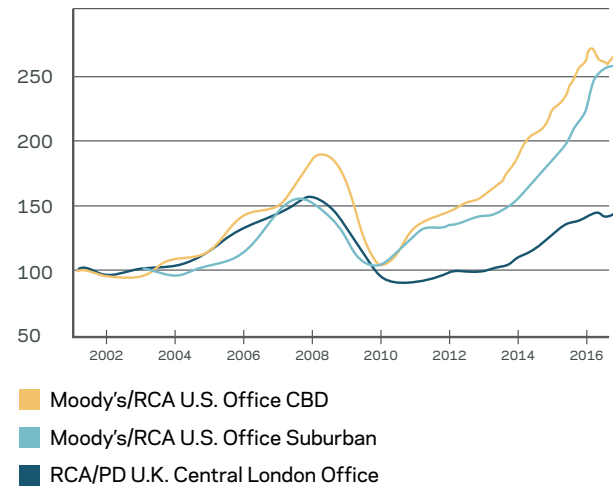
Coworking got its start at the height of a recession, when vacancies were high and landlords were hungry. Since then, central business district real estate prices in the U.S. and U.K. office sector have fully recovered from the recession and, according to Moody's, are now 25% higher than their 2008 peak. Rents are projected to continue to increase in all markets (See *Figure 10: Commercial Property Price Index*). CBRE research shows more than 40% of global CRE executives view cost escalation as a leading challenge (See *Figure 10: Commercial Property Price Index*).⁹³

Leasing costs represent 38% of a coworking facility's costs globally (44% in the U.S.). Nearly half (46%) of U.S. coworking space leases are up for renewal in the next 16 months. At the same time, 60% of coworking spaces plan to expand this year.

Those new leases and lease renewals will be at rates considerably higher than those negotiated at the market trough. The additional costs will be passed on to members. Though 94% of full-time coworking members believe they are getting a good value—62% of those with workday hours-only memberships and 77% of those with limited-day memberships—their price sensitivity is unknown.⁹⁴

figure 10

COMMERCIAL PROPERTY PRICE INDEX



MEMBERSHIP RENEWALS

In a perfect world, once a center is fully rented all the tenants would continue to renew and income could be relied on like an annuity. On average, current U.S. coworkers have been members for 19.7 months:

- 36 months or longer: 17%
- 13-15 months: 29%
- Up to 12 months: 54%

Though the trend appears to favor longer memberships, this may be because of the newness of the industry. The higher the turnover, the harder it is for the owner to rely on a stable income and manage the business. And the possible migration of the millennials to the suburbs may impact memberships in downtown locations.

CONSTRUCTION COSTS AND FIT-OUT ALLOWANCES

Rising construction costs were second in importance to job growth, according to a 2016 survey of real estate experts conducted by PwC and the Urban Land Institute.⁹⁵ Higher construction costs may cause landlords to offer less generous fit-out allowances, which will reduce the coworking industry's profitability and increase its need for capital.

Speaking to a reporter about a failed deal for a 45,000-sq.-ft. lease in London's Financial District, David Fano, chief development officer at WeWork, stated, "Obviously, a big part of our model

⁹¹ PwC & Urban Land Institute. (2016). *Emerging trends in real estate: US and Canada 2016*. <http://uli.org/wp-content/uploads/ULI-Documents/Emerging-Trends-in-Real-Estate-United-States-and-Canada-2016.pdf>.

⁹² Deskmag. (2016, May 5). *Coworking in the U.S. 2016*. <https://dl.dropboxusercontent.com/u/64387613/Coworking%20Survey%20Results/DESKMAG%20GCUC%20GLOBAL%20COWORKING%20SURVEY%20PRESENTATION%202016%20SLIDES.pdf>.

⁹³ CBRE. (2016). *Global Occupier Survey 2015/16*. <http://www.cbre.com/research-and-reports/occupier-survey-2015-16>.

⁹⁴ Deskmag. (2016, May 5). *Coworking in the U.S. 2016*. <https://dl.dropboxusercontent.com/u/64387613/Coworking%20Survey%20Results/DESKMAG%20GCUC%20GLOBAL%20COWORKING%20SURVEY%20PRESENTATION%202016%20SLIDES.pdf>.

⁹⁵ PwC & Urban Land Institute. (2016). *Emerging trends in real estate: US and Canada 2016*. <http://uli.org/wp-content/uploads/ULI-Documents/Emerging-Trends-in-Real-Estate-United-States-and-Canada-2016.pdf>.

CORPORATE COWORKING PROGRAM

Before establishing a corporate coworking program, ask yourself these questions.

INTERNAL OR EXTERNAL?

Within your corporate real estate portfolio?

At a neutral space or one owned by others?



PURPOSE?

Incubators: Generate ideas

Accelerators: Grow ideas

Community centers: Reduce employee commutes and increase work-life balance

Shared offices: Reduce real estate or make connections with others

Serviced or curated offices: If you don't have the means or space to provide the services

Business continuity space: As part of a security and readiness plan in case of emergency, natural disaster or other threat to a centralized business site

Generate revenue by leasing surplus space

CORPORATE CONTROLLED OR OPEN TO OTHERS?

Solely for your employees?

Shared or open to others?



is having a good percentage of buildout paid for by the landlord. Some markets don't have a culture of TI [tenant improvement] work or free rent instead of TI. When we go into markets, we need to adapt to that market, prove ourselves out [so we can get] the deal structures we need. Deal making is dealing making. You have to be flexible and figure out what's fair for both parties.”⁹⁶

PRICE COMPETITION AND THE THREAT OF FREE WORK SPACE

Many new entrants in the coworking market have reasons other than profit for getting into the business. Hotels, restaurants and coffee shops looking to attract consumers to their locations are examples of businesses looking to entice mobile workers. If these models prove their worth, it could threaten the membership model.

The Ace Hotel in New York found a way to turn its cavernous lobby into an intimate workspace, and made free coworking a carefully designed part of its ecosystem. “The environment here is more or less a spontaneous organism striving for homeostasis,” said Ace cofounder Alex Calderwood in *Fast Company*.⁹⁷

If Spacious has its way, tables will be full of people hours before its restaurants open. For \$95 a month, members will have access to upscale space in trendy eateries across the U.S. and in London. Memberships include a receptionist, Wi-Fi, refreshments and early-bird access to the restaurant and bar.

The New York City and Washington, D.C., public libraries have used private grants and public money to create free coworking centers. But perhaps the coolest coworking spaces are in the 19 remaining private membership libraries around the U.S. For \$15 to \$250 a year, members find all the usual business amenities surrounded by mahogany, leather and other coworkers.⁹⁸

ERODING MARGINS

Price competition could erode margins if regions become oversaturated, if large players decide to muscle into markets or if new models are introduced.

Both Regus and Servcorp have experienced eroding gross and net profit margins.⁹⁹ The same will likely happen in the coworking industry.

⁹⁶ Balbi, D. (2016, August 3). WeWork's nail-biting summer leaves questions about the company as it grows globally. *Commercial Observer*. <https://commercialobserver.com/2016/08/weworks-nail-biting-summer-leaves-questions-about-the-company-as-it-grows-globally/>.

⁹⁷ Goodman, L. (2011, August 12). Ace Hotel's communal workspace shows a winning hand. *Fast Company*. <http://www.fastcompany.com/1768472/ace-hotels-communal-workspace-shows-winning-hand>.

⁹⁸ American Membership Libraries. (Retrieved 2016, August 28). GoogleDocs. <https://docs.google.com/spreadsheets/d/1GSchHckW8JIVoTG70n9ETj35ts4CgcegJ0ayKOK8T38/edit#gid=0>.

⁹⁹ Regus. (2015). *Annual report and accounts 2015*. http://www.regus.com/images/Regus_plc_consolidated_report_and_accounts_2015_tcm304-58776.pdf.

Servcorp. (2015). *Annual report of 2015*. http://www.servcorp.com.au/media/1409/annual_report_2015_asx.pdf.



Photo courtesy of Eric Laignel

POLITICAL AND ECONOMIC INSTABILITY

As global coworking players expand into new regions, they are offering a valuable service in markets that may have a real need for those spaces. But by expanding into politically or economically unstable regions, they increase their exposure to risks including political upheaval, social unrest, repatriation of funds, nationalization of assets, organized labor problems and devaluation.

ABSENCE OF PUBLICLY AVAILABLE FINANCIAL INFORMATION

Because there are so few public companies in the coworking market, reliable industry data is hard to come by. Potential players are largely left to research provided by industry insiders who may be eager to paint a rosy picture.

EXPANSION INTO NEW UNKNOWN MARKETS

Companies and investors eager to dominate a new territory may encounter cultural, regulatory, social and other barriers. Significant differences in adoption and costs could erode profits. “I think their whole model of not just renting space but being part of a community is somewhat untested in terms of a cultural fit as they continue to expand,” said Heidi Learner, the chief economist at Savills Studley, in a recent article about WeWork. “The model operates successfully in places like the U.S., the U.K. and Australia with Regus. But with some other markets like China, I think the jury may still be out. There’s not enough data.”¹⁰⁰

The burden of compliance with country and regional tax laws, regulations, employment laws, reporting requirements and general law also can add significant overhead and risk.

EMPLOYER WORKPLACE CHANGES

Employers around the world are learning that talented people of all ages crave flexibility. But employers worry that remote work will dilute teamwork, innovation and corporate culture. Many are upping their games in an attempt to attract and retain the best people and to create an environment where they want to work, with some taking lessons from coworking centers. Their success could reduce the demand for space from coworking providers.

LEASE ACCOUNTING CHANGES

Most leases are currently off-balance-sheet. The costs are expensed as they are incurred. New lease accounting rules set to go into effect in the U.S. and U.K. in 2018 and 2019 will require companies to include leases as liabilities. This may increase the desire of CRE groups to shed space and perhaps initiate a coworking strategy. On the other hand, it may create pressure to monetize excess space by developing coworking spaces of their own.

This change in accounting also will affect the balance sheets of coworking operators. Though the jury is out on how this will impact lender or investor attitudes toward an organization’s financial health, it could make it harder for coworking spaces to secure financing.

¹⁰⁰ Balbi, D. (2016, August 3). WeWork’s nail-biting summer leaves questions about the company as it grows globally. *Commercial Observer*. <https://commercialobserver.com/2016/08/weworks-nail-biting-summer-leaves-questions-about-the-company-as-it-grows-globally/>.



Photo courtesy of Eric Laignel

RETURN TO PRIVATE SPACE

Many are predicting a future of more “me space” and less “we space.” Open space can be particularly hard on older workers, introverts (40% of the workforce) and those involved in concentrative work. Most agree the pendulum has swung too far to the “we” side in the proliferation of open office environments. Even coworking spaces are finding an increased demand for private space.

Work styles favored by millennials may change with age. And we need to start preparing for the Generation Zs, individuals who were born between 2000 and 2020. The Gen Zs are the first true digital natives. Known as “mature and in control,” they may not embrace the less-structured coworking environment, but do want to work for success and are future-focused.¹⁰¹ Gen Zs are likely to want relief from high stress, overstimulating and more chaotic environments and to seek spaces that provide clarity and order. All of these factors may challenge the coworking model.

SECURITY ISSUES

In a post-9/11 era, security requirements in commercial office buildings are strict, particularly in large cities. This may present a problem to the open, 24/7, drop-in nature of coworking. One significant event could be costly for the entire market and sway users back to a more secure, controlled office environment.

MARKET CONSOLIDATION

The coworking market is fragmented. While the emphasis on community may support independent operators, the market is likely to undergo consolidation that could make it harder for them to compete.

LOW BARRIERS TO ENTRY

According to Deskmag, the average cost of opening a coworking space is less than \$100,000. Forty-six percent of owners spend less than \$50,000. Such a small capital investment reduces the barrier to entry. This could lead to significant competition and entice inexperienced owners to enter the business.

TECHNOLOGICAL ADVANCES

Offering the newest technologies to members will be a continuous cost and challenge for coworking operators. In the long-term, virtual reality, augmented reality and even holographic solutions may enable remote workers to satisfy their social needs virtually. Large companies with deeper pockets may be able to provide these high-tech solutions more easily and entice workers back to their facilities.

FINANCIAL EVENT OF ONE COULD INFLUENCE ALL

Coworking is still proving itself to lenders, investors, landlords and members. This uncertainty makes it vulnerable to trouble in the industry. If one of the large players stumbles, others may feel the pain.

ABILITY TO ATTRACT CORPORATE CLIENTS

With notable exceptions including Dell, SAP, Salesforce.com, American Express and Cisco Systems, most employers have not fully embraced the concept of remote work. Despite substantial evidence illustrating that remote workers are more productive than their office counterparts, most managers do not trust their people to work untethered. Today’s managers still tend to manage by presence instead of performance. The coworking culture may feed on those fears.

Attitudes are changing, particularly among younger managers. Yet the concerns that persist include:

- The degree to which remote work erodes culture.
- The belief that team performance and innovation require face-to-face collaboration.
- Lack of IT infrastructure to support remote work.
- Issues related to security.

¹⁰¹ Sparks & Honey. (2014, June 17). Meet generation Z: Forget everything you learned about millennials. <http://www.slideshare.net/sparksandhoney/generation-z-final-june-17>.



WeWork London location; image used courtesy of WeWork

TRACKING WEWORK'S TRAJECTORY

When WeWork announced the addition of \$430 million in capital from Chinese investors in early 2016, the market pegged its value at \$16 billion. A year earlier, the company had raised \$970 million and been valued at \$10 billion. Its growth has been meteoric.

WeWork's basic business model wasn't new: Snatch up office space when prices were low and parse it out to others for more money. The serviced office industry had been doing that for years. But WeWork sought to transform the stodgy offices of the past into hip, trendy communities that entrepreneurs, freelancers, small companies and even home-based employees of large corporations would want to join. And its principals, Adam Neumann, who grew up in a kibbutz in Israel, and Miguel McKelvey, who grew up in a five-mother collective in Oregon, were out to do it in a big way.¹⁰² And they have.

Since its launch in 2010, the New York-based company has become a global mega-landlord. With more than 60,000 users and 112 locations across 32 cities and 13 countries, WeWork

occupies more than 4.6 million square feet of space.¹⁰³ In its largest market, Manhattan, the company ranks as the 16th-largest lessee in the borough.¹⁰⁴ With more than 3.6 million square feet of newly leased U.S. space in the last two years, WeWork's expansion puts it ahead of Google and far ahead of serviced-office competitor Regus, which has 2 million square feet of new space.¹⁰⁵

In April 2016, applying the WeWork model to housing, the company launched WeLive with the hint of other "We's" built around fitness and dining to come. The first WeLive iteration, based in New York's Financial District, offers 450- to 1,000-sq.-ft. fully-furnished units with communal amenities including a state-of-the-art kitchen, laundry room (with games), screening room, concessions stand and hot tub. Rents range from \$2,000 per month for a studio to \$1,375 per person for a 4-bedroom 1,000-sq.-ft. unit.¹⁰⁶

¹⁰² Putzier, K. (2015, June 10). The \$5B question: Will WeWork survive the next downturn? *The Real Deal*. <http://therealdeal.com/2015/06/10/the-5-billion-question-will-wework-survive-the-next-downturn/>.

¹⁰³ WeWork (Retrieved 2016, September 5). <https://v2.wework.com/plans>; <https://v2.wework.com/locations/>.

¹⁰⁴ Manhattan's biggest office tenants. (2016, January 26). *TRData*. <http://therealdeal.com/new-research/data-book/manhattans-biggest-office-tenants/>.

¹⁰⁵ Drummer, R. (2016, March 24). WeWork and other shared-office providers aiming to reinvent how office leasing works. *CoStar*. <http://www.costar.com/News/Article/WeWork-and-Other-Shared-Office-Providers-Aiming-to-Reinvent-How-Office-Leasing-Works/180890>.

¹⁰⁶ Rhodes, M. (2016, April 4). Inside WeLive, WeWork's dorm-style take on urban housing. *Wired*. <https://www.wired.com/2016/04/inside-welive-weworks-dorm-style-take-urban-housing/>.

IMPLICATIONS FOR CRE PLAYERS

The coworking trend has implications for many in corporate real estate including owners, investors, operators, employers, architects, designers and furniture manufacturers. Here are suggestions, cautions and best practices for each to consider as they evaluate the role they want to play in the market.

OCCUPIERS AND EMPLOYERS

- Look to coworking spaces for ideas about what people do and don't like.
- Think about how second, third and fourth places can increase portfolio flexibility.
- Make sure your brand and culture are reinforced both physically and virtually.
- Be intentional: Make change happen rather than allowing it to happen.
- Offer your people choices about how, when and where they work, both internally and externally.
- If you want your people to come to the office, make it somewhere they want to be.
- Consider the needs of introverts as well as extroverts.
- Because people cost far more than office space, make sure your choice of spaces maximizes their productivity, engagement and satisfaction.
- Avoid generalizations about generational preferences and plan for all that make up your workforce.
- Remember that people's preferences change as they age.
- When asking people to change, ensure that they understand why and the benefits for them.
- Design for your own culture (not Google's).
- Establish goals, pretest and measure results.
- Consider creating your own coworking space to:
 - Monetize unused space
 - Increase diversity and foster creative collisions
 - Test new workspace ideas
 - Engage with the community

BUILDING OWNERS AND INVESTORS

- Do your own due diligence.
- Know your market.
- Know your potential user.
- Ignore the buzz and look to the fundamentals.
- Focus on local metrics.
- Evaluate security risks.
- Consider the credit risk of coworking operators.
- Mitigate risks through diversification (country, industry, member type).
- Require site-by-site performance metrics.

ARCHITECTS AND DESIGNERS, FURNITURE MANUFACTURERS, PROFESSIONAL SERVICE PROVIDERS

- Design for flexibility.
- Look to the coworking industry for design ideas.
- Be cautious about making generalizations.
- Encourage your clients to embrace flexible design.
- Advise clients to think about how to incorporate second, third and fourth spaces into their portfolio mix.
- Think about your role in provisioning second, third, fourth (and fifth?) places.
- Remember that needs and preferences change as people age.
- Stress the need for effective change management processes.
- Understand the business goals and objectives of your clients and the preferences of their users.



Photo courtesy of Eric Laignel

COWORKING OPERATORS

- Know your market.
- Create a dynamic and energetic work environment.
- Emphasize the fundamentals:
 - Strong online connectivity
 - Parking/transit availability
 - Easy access (24/7)
 - High-quality coffee, food and other beverages
 - Modern technology
 - Available expansion space
 - Balance of open, shared and private spaces
 - Good lighting, temperature control, air quality and acoustics
 - Comfortable surroundings
 - Cleanliness
 - Community atmosphere
 - Helpful, friendly staff
 - Learning opportunities
 - Effective zoning within spaces
 - Concierge
 - Social hub
- Communal workspace
- Alone together workspace
- Focused work areas: open and enclosed
- Meeting spaces: open and enclosed
- Services: shared back-of-house functions
- Engage members and help them succeed.
- Encourage synergies among members.
- Engage with the external community.
- Avoid concentrations in business type (entrepreneur, small business, employee), industry concentration and memberships.
- Monitor your receivables.
- Expect to break even in one to three years.
- Don't oversubscribe.
- Watch for new trends.
- Budget for space refreshes.
- Start negotiating well before your lease expiration.
- Make continuous marketing a priority.



Photo courtesy of Ari Burling

WHAT'S NEXT?

The rise of remote work, some have suggested, could signal the demise of the traditional corporate office. But that hasn't happened. Occupancy studies confirm that there are fewer people in the office, and busy coffee shops offer a hint at where they've gone. Yet large offices still exist.

Coworking is likely to remain a small branch in the evolutionary tree of work. As with home, coffee shops and open offices, it's far from an ideal solution for many. But it can be a viable solution for a segment of the growing number of workers who are seeking options within and outside traditional workplace environments.

Work no longer happens in a single place. Thanks to technology and other resources, it happens in many places. The role that coworking plays in an organization's palette of spaces must be based on its own DNA—not what others are doing or what the media portends to be the future of work.

Although coworking space accounts for a small percentage of today's corporate real estate market, its share will undoubtedly continue to grow over the next three to five years. Demand will be driven by new generations of entrepreneurs, growth of the contingent workforce and modest penetration of the corporate market. But

supply will come at a higher cost and challenge operator margins as leases come up for renewal, existing players look to expand and new entrants join the market.

Coworking's early success has been fueled in part by workers who wanted new options, benefitting from desperate landlords seeking to fill empty space during and after the Great Recession. Because user commitment is flexible but leasing terms are not, higher lease rates or the next big economic downturn may impact coworking more quickly than traditional workplaces.

For corporate occupiers and other real estate professionals, the coworking trend is certainly worth watching, exploring and testing. For some, it will offer a way to add flexibility to the portfolio and help them better match the ebb and flow of supply and demand. Others may find it a solution to some of the challenges posed by the changing nature of both work and worker.

Only you can answer the question of whether or not coworking belongs in your ecosystem of places and spaces. Like any real estate decision, the answer must be founded on a firm understanding of your organization, your people and your market.

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Special thanks to London's CoreNet Global Workplace Community for their challenge to create this publication and guidance throughout the process.



HOK's WorkPlace practice designs environments that help organizations and their people succeed.

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