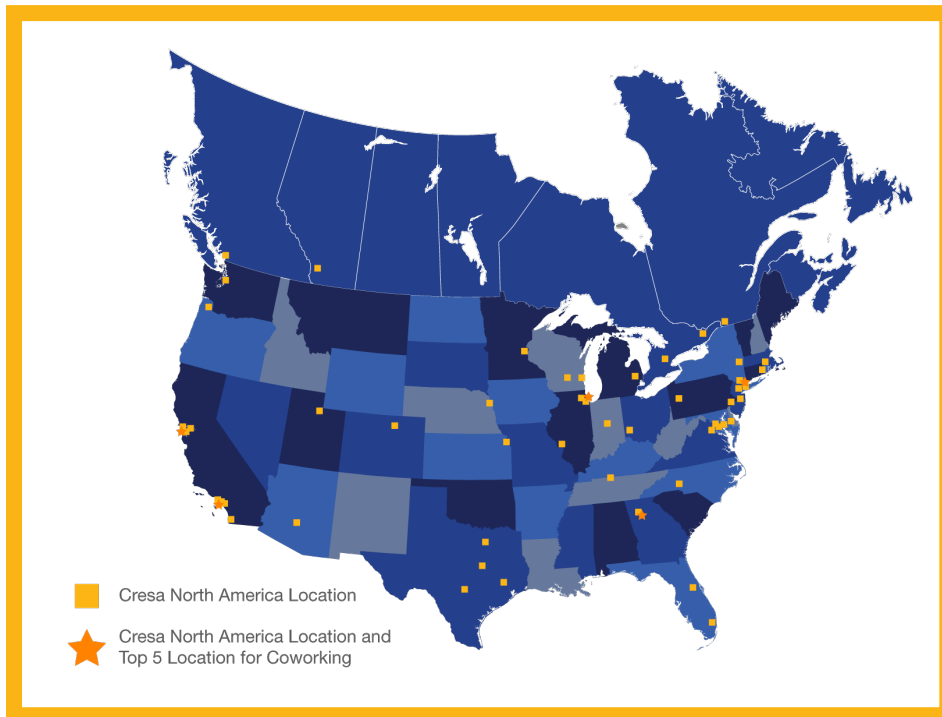




## Is Coworking the Future of CRE, or Just the Latest Trend in Office Space?

What does the collaborative workspace phenomenon mean for business and commercial real estate?

Technology allows us to work from anywhere, but this freedom has led many people to discover that working remotely isn't as productive or enjoyable as it might seem. Without colleagues nearby to share ideas with, ask for feedback, or catch up with over a cup of coffee, the workday can become long and isolating. Coworking fills this void for many, and its ability to foster community and relationships might just be what leads this relatively new industry to long-term success.



## What is Coworking?

As a business model, most coworking companies are established on the same three characteristics: they offer desk spaces and/or office within a shared floor or space; rental agreements are flexible and open, allowing renters to move in or out with no commitment; and the operator actively fosters a close-knit professional community among the members by hosting events, programs, and other activities.

## Snapshot: The Coworking Industry Today

Over the last ten years, coworking has become mainstream. Today, there are approximately 11,000 coworking spaces worldwide, and that number is expected to more than double to 26,000 by 2020.<sup>1</sup> Across the U.S., coworking grew at a rate of 10 percent in 2015, equating to nearly 4,000 locations nationwide. At the moment, the industry is centered around a handful of large metropolitan areas – with New York City, Los Angeles, San Francisco, Chicago and Atlanta topping the list – and is largely driven by growth in the technology, advertising, media, and information technology sectors.<sup>2</sup>

As corporations such as Verizon, Microsoft, and many others are buying into the concept of workspaces oriented for community and collaboration, a new target audience for coworking space is evolving. Large companies are entering into rental agreements with coworking spaces to take advantage of the innovation,

close business relationships, and other benefits that coworking offers, and to offer their remote workers an alternative to working from home.

## Drivers Behind the Coworking Movement

A perfect storm of influences seems to have fueled the massive growth of the coworking industry. Prime among these is the changing environment of work, according to Zoltan Szalas, who co-founded the coworking space Croissant and was named one of the thirty most influential people in coworking.<sup>4</sup> “Workers are seeking flexibility and meaningful work over traditional career paths,” Szalas explained.

### The Rise of Independent and Mobile Workforces

The number of freelance, self-employed and remote workers has been steadily rising in the U.S. At last count, 35 percent of the U.S. labor force is classified as independent workers<sup>4</sup> and 37 percent of U.S. employees telecommute.<sup>5</sup> This new generation of untethered workers needs someplace to work and, based on the speed at which coworking has taken off, they seem to be flocking to community-oriented professional environments that represent an alternative to traditional office space.

### Technology Advancements

Coworking is underpinned by the freedom provided by reliable internet access, laptops and tablets, mobile phones, cloud computing, web conferencing, and other software and technologies that make it easy for anyone to work from anywhere.



### The Millennial Influence

A study from Upwork (formerly oDesk), found that 92% of millennials want to work remotely<sup>6</sup> and 87% want to work on their own clock instead of traditional workday hours. This generation will soon represent 75 percent of the global workforce and is going to further drive the existing momentum toward working-from-anywhere – for employees and independent workers alike.

### Businesses Prioritize Employee Engagement

The Gallup organization has been tracking employee engagement over the past 15 years. Engagement is defined as employees who are “involved in, enthusiastic about and committed to their work.” According to Gallup, companies with more engaged employees have better odds of achieving the outcomes their organizations want — such as revenue, profit and productivity.<sup>7</sup>

The company has found that less than 33 percent of U.S. employees are engaged on average. In 2015, the company’s findings were that the majority (50.8%) of employees were “not engaged,” while another 17.2% were “actively disengaged.”

The option to work remotely, at least occasionally, is one tool that companies can use to help boost employee engagement. Employee engagement company TinyPulse recently conducted a survey that found that remote workers are happier at work, and feel more valued at work.<sup>8</sup>



### Commercial Real Estate Markets Are Designed for Established Businesses

Start-up companies, entrepreneurs, freelancers and digital nomads faced a challenge in the past when it came to renting office space. Most commercial office leases require a minimum of 1,000 s.f., and while the price per square foot is reasonable, at that size – and with the added costs of an office lease – this option is beyond the reach of most small businesses. While coworking spaces represent a premium price per square foot, the flexibility of paying for only the space you need without any long-term commitment is ideal for a one-person entity or a small group.

### What Coworking Means for CRE and Business

Although coworking was initially intended for the independent professional, it has become increasingly appealing to companies of all sizes to house remote workers, network with entrepreneurs and other visionaries, and support more responsive real estate scalability. In fact, more than half the members of coworking centers are employees (up from just over one-third in 2012), although most have migrated from a home office (45%) rather than a traditional office (37%).<sup>9</sup>

We are in the early days of the corporate presence in coworking, but there has already been interest and early toe-dipping from companies like General Electric, KPMG, Merck, PepsiCo, Microsoft, and Heineken.<sup>10</sup> These early adopters are experimenting with the potential for coworking spaces to offer solutions to longstanding real estate and business challenges by providing:



### Real Estate Flexibility

The rising contingent workforce enables companies to easily expand or contract their staffing needs in response to market forces and business strategy. But where do you put your workforce when you expand and contract, and what is the most efficient and cost-effective way to manage the related real estate needs? Coworking can help address this need, allowing companies to commit to less space and use coworking as a supplemental solution.

### Real Estate Efficiency

Coworking space represents a low square foot per person ratio. For example, a typical law firm would plan for 200-250 sf per person, which includes many conference rooms, a big lobby, and big offices for partners. On the opposite end of the spectrum, a call center might allocate 50-60 sf per person. Coworking falls on the low end of this scale, commonly coming in at around 70-80 sf per person, including access to a shared reception area and one to two small conference rooms.

### Reduced Real Estate Costs

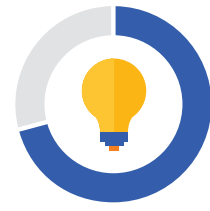
The typical U.S. company pays anywhere from \$4,000 to nearly \$15,000 a year per employee for office space in a major metropolitan area (depending on the location).<sup>11</sup> While coworking spaces are often more expensive per square foot, they let companies pay for only what they need, when they need it. The end result is less time spent managing real estate operations, more responsive real estate, and lower costs overall.

### Increased Employee 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.<sup>9</sup> In fact, the Harvard Business Journal found that coworkers report thriving at a significantly higher rate than employees in traditional office settings.<sup>12</sup> The researchers found the cause to be a combination of finding meaning in their chosen work; having greater control to work when, where and in the manner they choose; and identifying as part of a community.

### Improved Recruiting and Retention

Coworking space helps companies to attract the best people, regardless of their location. It provides options for employees who want flexible workplace and work time; offers more comfortable solutions to keep remote and travelling workers happier over time; can help reduce commuting stress and unpredictability by offering an alternative to central business district locations; and trendy and modern coworking spaces can appeal to younger more than traditional office locations.



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## Trend Report: Have you considered turning your excess space into a coworking site?

Ross Ridders has talked with a number of companies that have thought about renting excess space and leasing it out as coworking space. The Cresa principal explains that coworking isn't an "if you build it, they will come" kind of business. "There are often different hours for different membership levels," Ridders explains.

"Who gets key fobs to access the space? Who's paid their rent and who is behind? Does your contract with the landlord allow for a coworking business? There's also additional wear and tear on the building, HVAC implications during evening and weekend hours, and the entire social and community aspect that requires management."

While it's possible to make a profit on such a venture, it's important to consider that coworking needs to be managed like its own business. It isn't as straightforward as putting out some desks, putting up a website, and calling it coworking.

## The Future of Coworking: What's Next?

As coworking struggles to maintain its collaborative mission while taking steps to grow beyond its grassroots beginning, it's compelling to take a look at the market and competitive forces that will hold influence over its near future. Following are some of our predictions for the next several years of coworking:

### More Specialization and Niches

In order to differentiate themselves from increasing competition, coworking spaces will establish more niche targets and specialty amenities. This approach can help strengthen the sense of community, create greater loyalty, and provide much-needed revenue stability by reducing member churn.

### Industry Consolidation

As coworking continues to become a bigger business, we expect to see larger brands buying out the individual or smaller-scale spaces.

### Multiple Locations and Coworking Visas

The successful coworking companies will be able to expand beyond their initial location into multiple sites and further across state and international lines. With multiple locations, these companies can offer multi-site memberships - sometimes

referred to as coworking visas - to cater to frequent travelers and digital nomads.

### Coworking as a Sabbatical

Coworking spaces as destinations are growing in popularity. Similar to the volunteer vacations that combine holiday and meaningful work, coworking locations that are combined with leisure or travel opportunities present an attractive option for creative project work and corporate sabbaticals.

### Corporate Partnerships

Two or more companies that are interested in joint developments or collaborative projects may consider a shared coworking space for their employees to foster team-building and strengthen partnerships. Employees from different companies that are working on a shared project or mission can temporarily share a coworking space to support the work process.

### Growth in Secondary Markets

Coworking will begin to move into secondary markets and take advantage of available industrial and manufacturing buildings with open floor plans, which are an integral design element to creating a successful coworking community.

### Apps to Locate and Rate Coworking Spaces

Coworkers can already research the available coworking spaces in their area, reserve a desk, and rate their experience (and read other coworkers' reviews) using a handful of booking platforms and mobile rating apps like Coworker, Croissant, Desk Works, and LiquidSpace. Even more will be on the way soon.



## Trend Report: Internal Corporate Coworking

Traditional companies have seen the success of coworking and are taking the concept in-house by establishing internal coworking space to offer an alternative work environment for their employees. Some also invite outside start-ups and entrepreneurs to share their corporate coworking space, hoping to spur networking with future leaders and internal innovation.

Today, as the number of coworking spaces continues to grow, there is a general feeling that it has not yet outpaced demand. While the coworking business model depends in large part on the ability to lease (or purchase) real estate low and sublease it high, we have yet to see what impact a downturn in the economy will have on the fledgling industry. However, despite the higher real estate prices in 2016 and challenges in growing awareness, coworking continues to flourish. Corporate partnerships seem to offer a substantial growth opportunity for the industry, which represents a win-win for both sides as businesses continue to struggle with meeting the diverse work-life-play needs of their employees.