

U.S. SHARED WORKPLACES

PART 2



AN OCCUPIER PERSPECTIVE: WHY A SHARED WORKPLACE MAY BE RIGHT FOR YOU

CBRE Research | March 2016

CBRE





EXECUTIVE SUMMARY

Not only for small business and start-ups. CBRE Research found that more than 40% of respondents to a survey of large global occupiers are using or considering shared workplaces.¹

An opportunity to enhance culture. Shared workplaces can act as a conduit for conveying the values and priorities of an organization, whether formal and customary or progressive and modern.

A great work experience. Functionality of the workplace, freedom of work style and sense of community are all important to today's workforce and are elements of the contemporary shared workplace being driven by co-working specifically.

Community is a benefit. Forty-seven percent of surveyed users enjoy the community and networking elements of their co-working environments in addition to convenient locations that take them out of their home environments.

Not a millennial trend. Entrepreneurs are still the dominant users of co-working space and 63% of surveyed users were ages 31-50—under 25% were millennials.

Shared learning and collaboration. Co-working users report consulting with other members, creating new friendships and innovating as a result of interaction with other members.

A model for innovation. Large corporate institutions are utilizing co-working in particular as a strategy to embrace innovation to ensure access to progressive ideas and emerging talent.

Innovative cost approach. The contemporary shared workplace can be cost effective when compared to a traditional lease and carries additional benefits such as flexibility, speed to market and quality of infrastructure.

1: Americas Occupier Survey, CBRE Research | CBRE Institute, March 2016.

INTRODUCTION

This is the second in a series of reports focused on the shared workplace and specifically developments in the co-working space. The series examines this market segment from various dimensions, including that of the investor, landlord and occupier, and focuses on the dynamic impacts this type of space can have on each cohort.

In the first report in this series, we identified four megatrends that are driving the development of the contemporary shared workplace model: economic uncertainty, technology-driven workplace innovations, urbanization and a growing interest in collaboration and community-building.² These drivers are durable and are likely to support the growth and stability of the contemporary shared workplace segment for the foreseeable future.

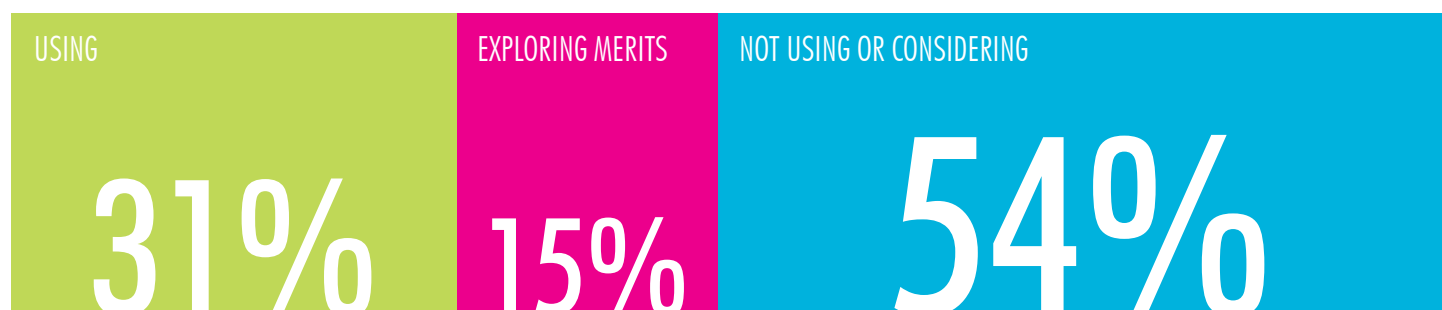
This second publication focuses on three critical differentiators commercial real estate professionals and small business executives should consider when they evaluate the merits of a contemporary shared workplace: culture, connectivity and cost. We will explore the following questions for both start-ups and established companies:

- **When can shared workplaces be used to reflect an organization's culture?**
- **Why are the benefits of community and collaborative environments important?**
- **How does the shared workplace offer flexibility, agility and an innovative cost approach?**

Companies have been using the serviced office for decades, but the advent of co-working is giving large corporate occupiers and small businesses alike a range of contemporary options depending on space needs. To date, co-working spaces have been largely occupied by independent workers seeking a cost-effective place to work outside the home. However, large occupiers seeking flexible, lower-cost and attractive solutions are showing interest in the contemporary shared workplace and increasingly in co-working specifically. A recent survey of large corporate occupiers conducted by CBRE Research found that more than 40% of respondents are using or considering shared workplaces, with a small, but growing, segment focused on co-working specifically.³

FIGURE 1: WILL THE SHARED WORKPLACE MARKET GAIN TRACTION?

Reflects percent of respondents' using and considering shared office facilities



Source: CBRE Americas Occupier Survey, 2015/16.

2: The Rise of the Shared Workplace in the Sharing Economy, CBRE Research, January 2016.

3: Americas Occupier Survey, CBRE Research | CBRE Institute, March 2016.

SHARED WORKPLACE

The shared workplace model aggregates demand for modest space requirements and offers short-term licenses to consumers, providing flexibility and agility.

CO-WORKING

A type of contemporary shared workplace, co-working is an emerging model which provides many of the amenities of traditional serviced offices but places a much greater emphasis on space that creates a community and an experience for consumers.



SHARED WORKPLACES CAN BE USED TO REFLECT AN ORGANIZATION'S CULTURE



Shared workplaces are a tool that can be used to reflect an organization's culture, values and priorities. The type of shared workplace that is occupied gives insight into the norms a company operates within, whether intentional or not. For example, serviced offices reflect a more formal, private and customary culture, whereas co-working facilities reflect a more progressive, transparent and modern culture. Although both models may serve primary drivers other than reflecting culture, choosing one model over the other is certainly a lens into the type of values a company employs. Organizations are starting to initiate use of this new and innovative space model to satisfy the requirements for specific departments or project teams that may not fit the cultural mold of the legacy office space.

In Washington, D.C., a large private development firm

occupies a co-working facility to house a 10-person team tasked with bringing innovative ideas to a client on a contract basis. One of the firm's core values is providing a great place to work and the co-working space reflects its mandate to be new and innovative, locates them closer to the client, and allows it to draw on the expertise of other organizations in the co-working facility. The co-working space provides it with a unique culture and brand.

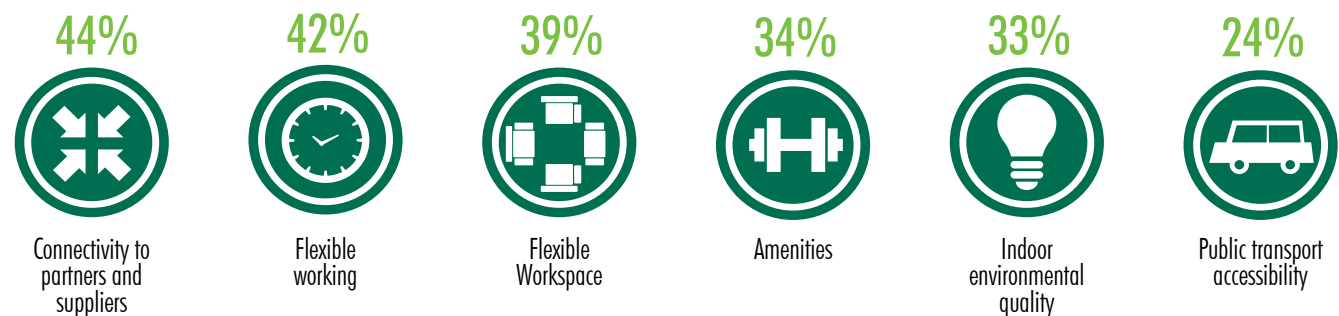
Co-working spaces offer a diversity of environments that give occupants options to choose where and how they want to work—and optionality is a key value for modern mobile employees. A recent survey of large corporate occupiers by CBRE Research revealed that today's labor force puts a high degree of importance on the desire for a great “work experience”—specifically, the functionality of the workplace,

the freedom of work style and the sense of community between related organizations.⁴ These spaces offer a unique opportunity for employers to access the work experience much of their talent base is calling for. They give optionality in location while embracing progressive designs that include functional workspace, common areas, a vibrant aesthetic and amenities such as high-end coffee bars, which highlight the aspect of hospitality these models convey to their occupants.

Contemporary shared workplaces can be powerful tools to enhance the culture and values of an organization. Whether it be to promote innovative thinking or access a better work experience for employee retention, contemporary shared workplaces offer diverse ways to support the needs of occupiers from small private firms to large public institutions.

FIGURE 2: TODAY'S WORKFORCE DEMANDS CONNECTIVITY AND FLEXIBILITY

Reflects features identified as most important to the labor force



Source: CBRE Americas Occupier Survey, 2015/16.

4: Americas Occupier Survey, CBRE Research | CBRE Institute, March 2016.

WHY COMMUNITY AND COLLABORATION ARE IMPORTANT IN TODAY'S WORK ENVIRONMENT

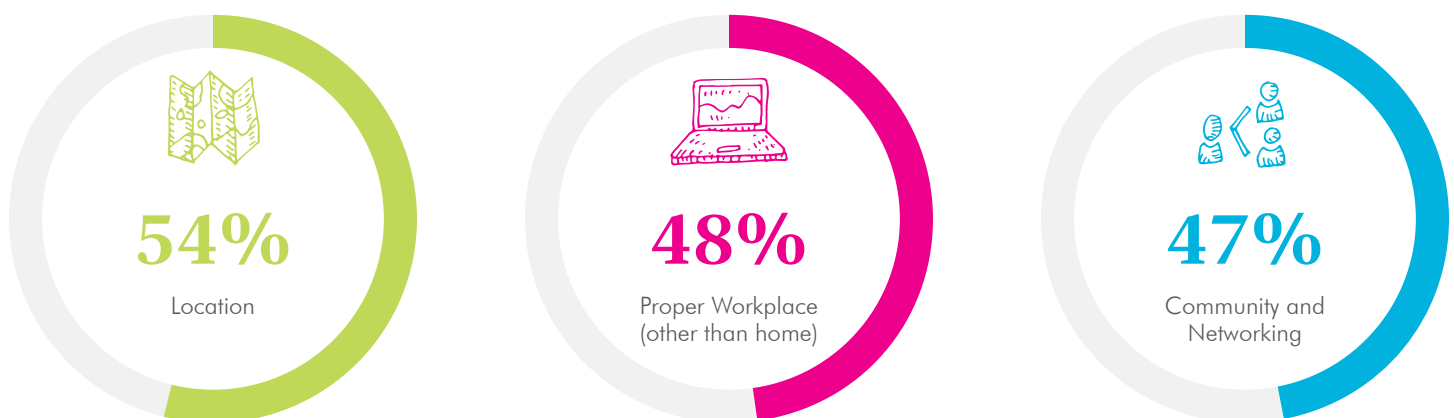
Connectivity to peers, clients and partners is incumbent to the success of any business large or small. Much of this connectivity is assumed through advances in technology and the rise of social networking, however, the physical environment must be intentional as well. According to a survey of co-working users conducted by CBRE Research, community and networking is a top feature co-working space users look for when choosing space – of course, in addition to a convenient location that takes them out of their home environment.

The importance of community and networking is valued by employees of companies large and small and landlords are responding to this call to action. They are focusing on making the physical building a more connected ecosystem of diverse uses, rich programming and amenities supporting a sense of

community. The primary objective is to improve the occupier experience and promote retention but the outcome is vibrant campuses that serve a greater purpose than simply a place to work.

Some landlords and investors are turning to partnerships with rising co-working organizations to help achieve their goals of a more diverse and connected tenant community. One of the most innovative examples of this is in the Crystal City neighborhood of Arlington, Virginia, just outside Washington, D.C. Vornado is hoping to attract the D.C. tech community to the area and is partnering with WeWork to provide one of the first homes in the nation for WeWork's residential brand, WeLive.⁵ This is a very innovative and progressive response to reinforcing the work, live, play mentality in a campus setting.

FIGURE 3: WHAT DO USERS LIKE ABOUT THEIR CO-WORKING ENVIRONMENT?

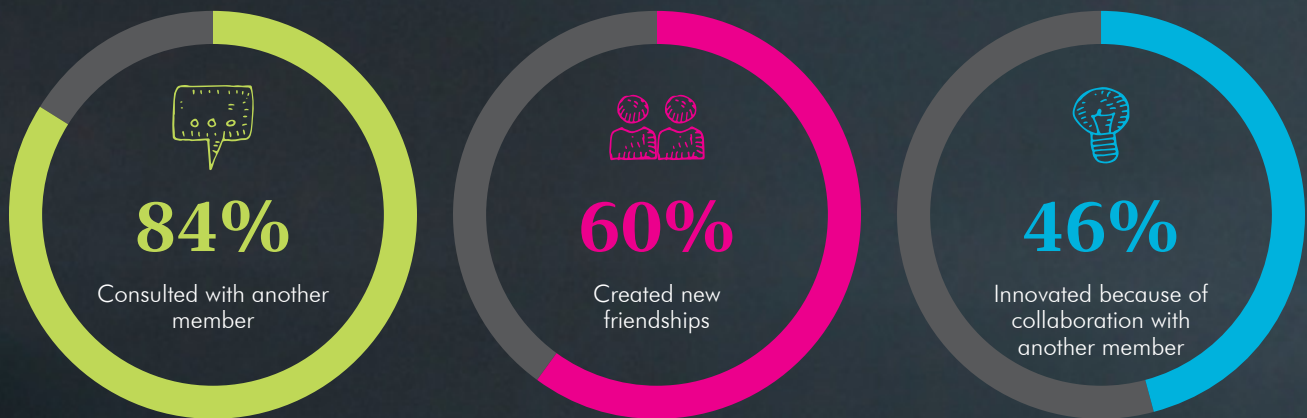


Source: CBRE Research user survey, October–November 2015.

5: Daniel Sernovitz, "Work where you live? For WeWork fans, there's a place for that in Crystal City," bizjournals.com (16 March 2015).



FIGURE 4: HOW DO USERS EXPERIENCE COMMUNITY IN THEIR CO-WORKING ENVIRONMENT?



Source: CBRE Research user survey, October–November 2015.



Grind has created a culture of professionalism focused on getting work done and this inspires our community members to turn to each other for support and expertise.

Benjamin Dyett, Grind

However, not all users of this space will want such a close blend between work and life. While contemporary shared workplaces have a youthful vibe, they are not all dominated by post-college millennials. According to CBRE Research's survey of co-working users, 63% of users were 31-50, with a median age of 40. This also corresponds with the most active years for entrepreneurship in the U.S.

This co-working trend is not only spanning generations but also spanning geographies. Regus, the global leader of traditional shared workplaces, is expanding into the co-working space through a separately branded and managed concept, SPACES. Regus began showcasing this concept in Europe and recently opened a location in New York, its first U.S. space. It is also actively expanding into Australia.

Regardless of age, consumers of contemporary shared workplaces want an experience. Features typically commensurate with college campuses—professional development programs, cafes and artisanal coffee, and culture and entertainment—have become hallmarks of many contemporary

shared workplaces because of the important role they play in creating an experience for the consumer. These features create a sense of community and shared interests, which allow for creative collisions and innovation. Benjamin Dyett, co-founder of Grind, spoke about how his spaces, like a university, seek to create a multi-disciplinary collaborative and competitive environment to spur productivity.

APPLICATION IN THE MODERN BUSINESS ENVIRONMENT

Today's business strategy calls for rapid testing of ideas—the idea of “failing fast.” Co-working models draw on concepts first developed for business incubators by universities to promote shared learning and co-innovation. For example, Verizon has partnered with Grind to open a co-working space in Lower Manhattan with a focus on capturing a target audience of start-ups and entrepreneurs through its Verizon Ventures mentorship program. The objective of the new space is to provide an environment that inspires knowledge sharing and collaboration among members of the co-working community

and to enable them to problem solve and co-create with some of the best and brightest in their industries.⁶

“Initially solving for inactive space within our legacy wireline assets, we found this type of environment provided the right canvas to leverage Verizon's culture of innovation, collaboration and performance to create a place that fosters growth and creativity for the industry's next generation of leaders,” said Jim Tousignant, Director, Global Real Estate, Verizon.

A sense of connection is the foundation of a successful community. The increasingly complex and rapid pace of modern business makes fostering connectivity a key priority for many organizations today. Contemporary shared workplaces play a role in creating intentional environments that allow connections to happen by design and by circumstance. The benefits are clear for small organizations but large organizations who understand the need for continued innovation can benefit from these connected environments as well.

6: Christian Guirnalda, “Verizon Unveils Coworking Space in Lower Manhattan to Support Startups, Freelancers & Creatives,” Verizon Ventures, October 13, 2015.

HOW SHARED WORKPLACES OFFER FLEXIBILITY, AGILITY AND AN INNOVATIVE COST APPROACH

Shared office spaces aggregate demand for offices that do not lend themselves to full scale transactions—often due to the size of the requirement, length of the lease term and/or complexity of the transaction. The demand traditionally has originated from:

1. solopreneurs, consultants and part-time or remote workers
2. project teams, start-ups or companies with short-term horizons
3. public institutions looking to access new markets

Therefore, it is not surprising that shared workplaces have grown rapidly in gateway markets such as New York, San Francisco, Los Angeles and Boston, where the cost of business is rising. A comparison of options for a 10-person office in downtown Washington, D.C., indicates that, a shared workplace can be cost effective when compared to a traditional lease and carries additional benefits as well.

There are a number of elements to consider besides the headline lease cost when comparing the costs of shared workplaces with those of traditional leased offices.

1. The negotiating process is removed, making it easier and faster to acquire space. Pricing is transparent and contracting for space is often reduced to a credit card swipe.
2. The shared workplace license agreement is usually considered an annual expense rather than a multi-year lease liability on the balance sheet.

3. Flexibility to scale the requirement to fit the need, including the ability to exit the agreement with a short-term notice, provides companies with agility.
4. Fit out, furnishings, infrastructure, amenities, common areas and even administrative services are rolled into one fee, reducing the requirement for a significant capital outlay in year one. Utilities are also typically included.
5. Access to a shared workplace network reduces the cost and complexity of maintaining a presence in multiple locations.
6. Some shared workplace models offer support services that can ebb and flow with your business without the inflexible fixed overhead costs of managing those functions in house.

Many large corporations have relied on lease renegotiations and space efficiency initiatives to manage cost efficiency in the past; however, as many markets in the U.S. continue to tighten, new and innovative space planning must be explored. Managing space utilization will likely become a key trend and sophisticated occupiers are beginning to anticipate for innovations in their space planning accordingly.

Greater agility in choice of place to work can have significant productivity and employee morale benefits. The shared office represents the rise of “office as a service” similar to the rise of software as a service and taps in to the concept of the sharing economy. And in today’s fast-changing and uncertain business environment, flexibility and agility are priceless.

FIGURE 5: ESTIMATED COST COMPARISON FOR 10-SEAT REQUIREMENT IN WASHINGTON, D.C.

	Traditional Leased Space*	Co-Working Space
Assumptions	3 year lease @ \$45/SF 1400 – 1900 SF requirement \$15/SF Fit Out Cost Year 1	Monthly License Fee: \$425/Desk \$680/Private Office
Year 1 Cost	\$84,000 – \$114,000	\$51,000 – \$82,000
Annual Average Cost	\$72,000 – \$97,000	\$52,000 – \$84,000

*Illustrates terms for short term plug and play space in Washington, D.C.
Source: CBRE Research, 2016.

The sharing economy is different; you don't lock into anything. There is real value in flexibility.

Ronen Olshansky, CrossCampus



**15%+ COST SAVINGS
PLUS INTANGIBLE BENEFITS**

Flexibility to scale size
No lease liability
Speed to market
Built in amenities

CONCLUSION

The contemporary shared workplace model has grown and evolved rapidly in recent years in terms of visibility, diversity in offerings and range of amenities and price points. However, a number of perceptions that have perhaps kept larger occupiers away from extensive use of this model have not changed. These include the misconception that this type of space is only utilized by entrepreneurs and small businesses; that the users are post-college millennials; or that this space is priced at a premium compared with a traditional leased office. Our research suggests these assumptions are not accurate and the use and value of the shared workplace is changing.

The impacts contemporary shared workplaces—such as co-working—will have on traditional occupiers have yet to be seen. However, the growth and interest these models have garnered is not to be ignored. The uses for this type of space stretch far beyond the boundaries of entrepreneurs and startup companies and the benefits detailed throughout this report have real implications for even established global corporations. Accessing new markets, attracting and retaining talent and introducing innovation are just some of the use cases this space can have for large occupiers that may be used to employing traditional leases to meet their space needs.

What occupiers want are cost-effective, productive and flexible workspaces that deliver work experiences emphasizing functionality, freedom of work style and connectivity to community. Contemporary shared workplaces are meeting those requirements. Landlords have already experienced the impacts of efficiency programs on space take up and should be aware of the use of the shared workplace model as a potential next wave of efficiency. We will explore the implications for landlords and investors in greater detail in the next report in our series.





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ABOUT THIS REPORT

This is the second in a series of CBRE Research/Longview Global Advisors reports on developments in the flexible or shared office segment. Research for this report was conducted between September and November 2015. The findings are based on conversations with more than 50 thought leaders and representatives around the U.S., including occupiers, users, landlords, investors, and workplace design and strategy professionals. The report also draws on findings from two surveys—one involving more than 30 corporate real estate professionals and the other more than 130 co-working users. We would like to thank Cross Campus, Hera Hub, and Epic Spaces for contributing to the end user survey, and DAI, Blankspaces, and Grind for contributing to the report.

To download Part 1 of the series, [click here](#).

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Longview Global Advisors is a research and advisory consultancy that helps business leaders make sense of a complex world. Drawing on a network of social science experts, the firm focuses on the connections between business, economic, political, and social trends and provides issues-monitoring and analysis, thought leadership, and corporate and executive positioning.

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