U.S. SHARED WORKPLACES

PART 1

THE RISE OF THE SHARED WORKPLACE IN THE SHARING ECONOMY

CBRE Research | January 2016

CBRE

EXECUTIVE SUMMARY

The shared workplace is undergoing a rapid and unprecedented transition. Co-working, a type of shared workplace, is an emerging model which provides many of the amenities of traditional serviced offices but places a much greater emphasis on designing space that creates a community and an experience for users. This model has proven to bring a unique energy and connectivity to the shared workplace that previously had not existed.

Projections of untapped market share for co-working space usage have boosted investor confidence in co-working startups. Valuations for more popular co-working startups are more akin to a tech startup than a real estate company.

To date, co-working spaces are largely occupied by independent workers who have sought a cost-effective place to work outside the home. However, large occupiers seeking flexible, lower-cost and attractive solutions are beginning to show interest in this emerging space. In fact, the CBRE 2015/2016 Americas Occupier Survey,[1] which provides a consensus view on the strategies and priorities of 226 Americas-based corporate real estate (CRE) organizations, found that more than 40% of respondents are using or considering shared workplaces.

This is the first in a series of reports focused on the shared workplace and specifically developments in the co-working space. The series will explore co-working dynamics from various dimensions including that of the investor, landlord and occupier focusing on the positive and negative impacts this type of space can have on each cohort.

This first publication is focusing on the megatrends driving the sustainability of the co-working model right now. Economic uncertainty is compelling companies of all sizes to better manage their expense lines. However, intense competition to secure talent is driving many companies into urban areas where rents continue to rise and wages are experiencing upward pressure. The employees these companies want to attract and retain regard blending work and life as integral to their happiness and success. Creative space strategies, such as the use of co-working facilities, will need to be seriously explored and perhaps implemented to satisfy management and employee needs.

1: The 2015/2016 Americas Occupier Survey will be available for download at cbre.com/gos in Q1 2016.

TRANSFORMATION OF THE SMALL, FLEXIBLE OFFICE SEGMENT

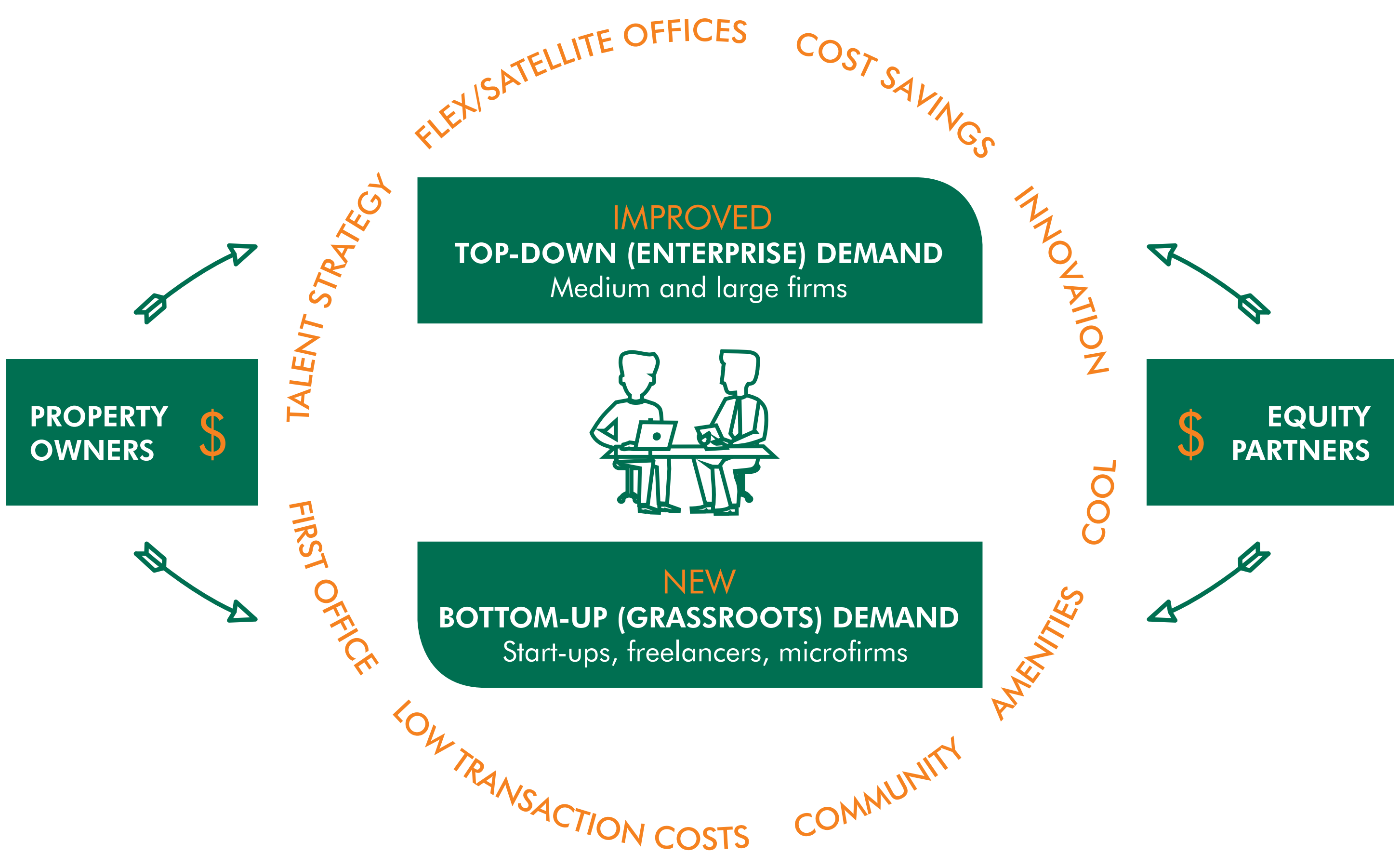
Since the 1980s, serviced offices, executive suites and business centers have defined the market for small and flexible office space. The past five years have seen tremendous change in this segment with the advent of hundreds of new co-working operations in gateway cities and—increasingly—secondary locations around the U.S.

Co-working is notable for what it offers:

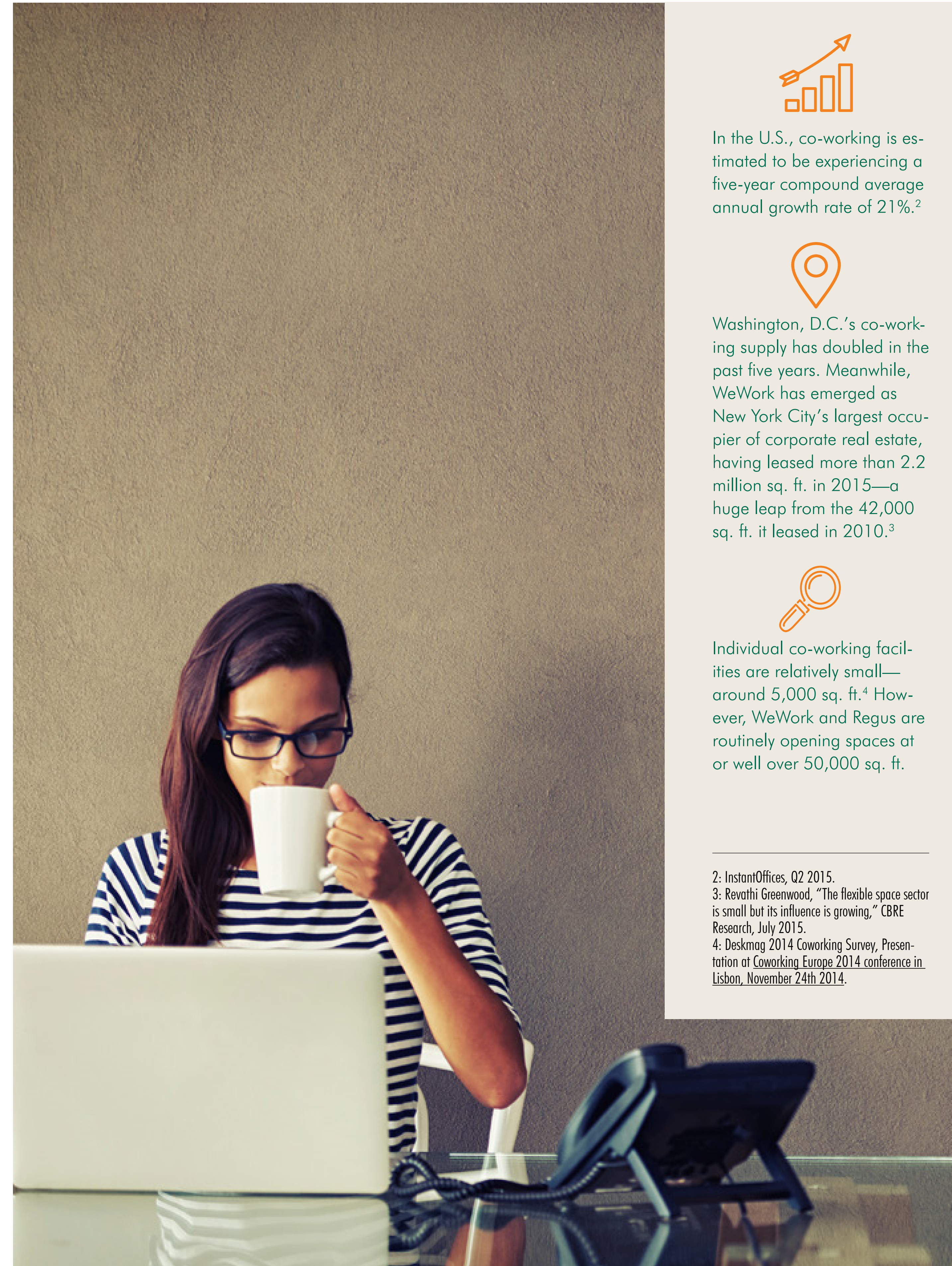
- Attractive and creatively designed environments that provide users with a variety of working environments and amenities
- Programming and branding that creates experience-rich environments, a sense of community, a “cool factor” and motivational energy

These features are generating new bottom-up, grassroots demand for more formal workplaces by pulling freelancers, startups, and small businesses out of home offices, cafes and ad hoc quarters (Figure 1). Indeed, in a CBRE Research survey of co-working users, 41% described themselves as independent consultants, freelancers or “solopreneurs” starting their own businesses.

FIGURE 1: DRIVERS OF GROWTH IN CO-WORKING



Source: CBRE Research/Longview Global Advisors, December 2015.



In the U.S., co-working is estimated to be experiencing a five-year compound average annual growth rate of 21%.[2]

Washington, D.C.’s co-working supply has doubled in the past five years. Meanwhile, WeWork has emerged as New York City’s largest occupier of corporate real estate, having leased more than 2.2 million sq. ft. in 2015—a huge leap from the 42,000 sq. ft. it leased in 2010.[3]

Individual co-working facilities are relatively small—around 5,000 sq. ft.[4] However, WeWork and Regus are routinely opening spaces at or well over 50,000 sq. ft.

2: InstantOffices, Q2 2015.
3: Revathi Greenwood, “The flexible space sector is small but its influence is growing,” CBRE Research, July 2015.
4: Deskmag 2014 Coworking Survey, Presentation at Coworking Europe 2014 conference in Lisbon, November 24th 2014.

18%

Percentage of companies currently using or considering serviced/furnished offices

14%

Percentage of companies currently using or considering co-working spaces

7%

Percentage of companies currently using or considering business incubators

Source: CBRE Americas Occupier Survey, 2015/2016.

Co-working isn't appealing to just startups and freelancers, however. Fourteen percent of corporate real estate executives responding to CBRE's 2015/2016 Americas Occupier Survey indicated that they are presently using or considering this option.

While take-up by large corporate entities remains limited, co-working holds out the promise of opportunities to tap into new markets and technologies, as well as a "cool factor" that aids in brand-building and talent recruitment and retention. Given its scale, such top-down, enterprise demand has the potential to turbocharge growth in the co-working sector in the coming years.

A number of new co-working operators, such as Grind, Assemble, Cove, Hera Hub, CrossCampus, and WorkBar are seeking to capitalize on these two growth opportunities and develop into regional and national networks. WeWork has garnered more than $1 billion in institutional investment as of mid-2015.

To be sure, co-working is not new and it should not be viewed in isolation. Rather, it offers innovations on the serviced office model. Co-working also incorporates many features of the community and university-based business incubators that emerged in the 1990s.

Meanwhile, traditional serviced office and business center providers are evolving their offerings and marketing to capture the energy being generated by co-working upstarts. In 2016, Regus, the largest operator of co-working space globally, has announced plans to unveil a new co-working format in the U.S. called Spaces—a brand that it has already launched in Europe.

Altogether, more than two-fifths of a select group of corporate occupiers participating in CBRE's 2015/2016 Global Occupier Survey reported using or considering shared workplaces such as serviced offices, co-working facilities, and business incubators.

The serviced office segment experienced a shake-out after the dot-com bust and recession of 2001-2002. Questions now abound about what will happen in the future—particularly for co-working operations, which have yet to be tested in a downturn. However, current structural economic, workplace and social megatrends suggest the world has changed. These drivers are durable and they are likely to support the growth and evolution of the segment for the foreseeable future.

The flexible supply sector, encompassing serviced offices and co-working space, is one of the fastest growing commercial real estate segments in the U.S.

Revathi Greenwood, CBRE Research

MEGATRENDS

Economic Uncertainty, Technology, Community & Cities are four megatrends that we believe are driving the sustainability of the emerging co-working model right now. They are forces that are driving change in the workplace and among the labor force. The validity of these megatrends are supported by data that has been gathered from recent CBRE surveys with respondents who are corporate real estate professionals or co-working end users.

ECONOMIC UNCERTAINTY

Uncertainty about the future, and the rapid pace of change in markets, technology, and business models, are givens in today's business environment.

These factors complicate long-term real estate decision-making: CBRE's 2015/2016 Occupier Survey found economic uncertainty itself counted as the third-most-significant challenge facing corporate real estate organizations (Figure 2). An uncertain and rapidly changing business environment puts a premium on performance and agility, including what RocketSpace founder and CEO Duncan Logan notes is the shift of priorities in allocated costs to "opex over capex." Flexibility is a hallmark of the shared workplace.

A world of economic uncertainty is also accompanied by concerns about talent and escalating costs (the first and second most important challenges challenge cited in the CBRE 2015/2016 Occupier Survey). These factors present challenges for companies making them reluctant to hire sometimes due to cost pressures and sometimes due to skills mismatch, either way flexibility is paramount and companies have relied increasingly on part-time and contract labor to fill gaps—what observers have labeled the "gig" or "on-demand" economy. U.S. labor statistics suggest contingent labor currently comprises as much as 40% of the total workforce—up from about 35% in 2006.[5] This growing army of contingent laborers will sustain demand for shared offices in the future.

TECHNOLOGY

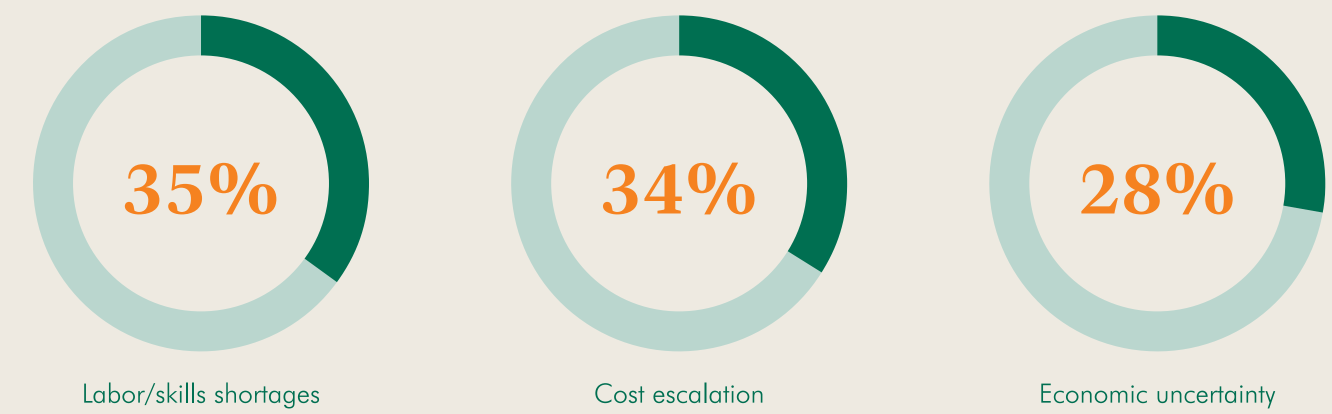
The emergence of digital innovations that are lightweight and easy-to-use, combined with cloud computing and mobile technologies, are reducing companies' need for a fixed office and IT infrastructure. This allows companies and individuals to work wherever, whenever and however.

Tech-enabled mobility is enabling the demand for workplace flexibility and options. Almost one-fifth of CRE professionals in CBRE's 2016 Americas Occupier Survey said that, for the workforce they served, being close to suppliers and other partners was the most important requirement. Another 18% said that flexible working arrangements (including being able to work anywhere, at any time) were most important (Figure 3).

The cloud—by definition a part of the sharing economy—is enabling companies, especially startups, to eliminate hard-wired, place-based IT infrastructures. Digital platforms, meanwhile, are driving the emergence of peer-to-peer markets in real estate—shared workplaces included. In discussion, Mark Gilbreath, LiquidSpace founder and CEO, asserted that search and matching technology, combined with transparent pricing and simple contracting mechanisms, will further expand user choice and mobility and accelerate the move toward shared workplaces.

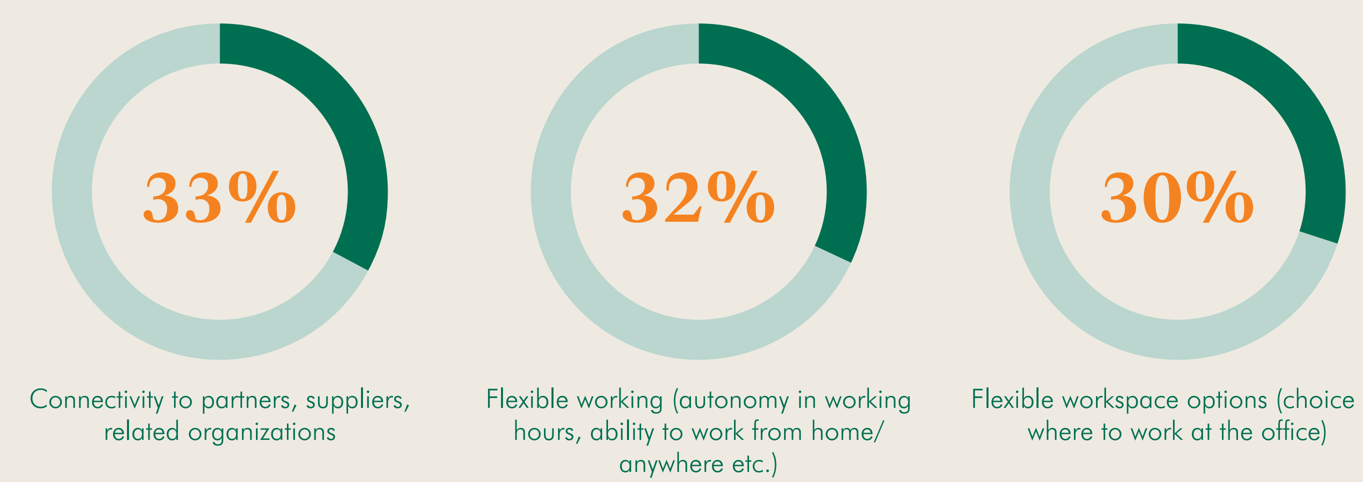
5: The size of the contingent workforce varies greatly depending on how it is defined. The type of knowledge worker that becomes an end user of a co-working space comprises a much smaller part of the workforce—less than 10%. (U.S. Government Accountability Office, "Contingent Workforce: Size, Characteristics, Earnings, and Benefits," April 20, 2015). See also Justin Fox, "Where are all the self-employed workers?" Harvard Business Review, February 7, 2014.

FIGURE 2: TOP THREE CHALLENGES FOR CORPORATE OCCUPIERS



Note: 3% of respondents listed 'other' as a top challenge.
Source: CBRE Americas Occupier Survey, 2015/2016.

FIGURE 3: CONNECTIVITY, BEING ABLE TO WORK ANYWHERE, AT ANY TIME, IS A TOP LABOR-FORCE PRIORITY



Note: 5% of respondents listed 'other' as a top challenge.
Source: CBRE Americas Occupier Survey, 2015/2016.

MEGATRENDS

CITIES

Since the 1990s, gateway markets like New York, San Francisco, Los Angeles, Boston and Chicago have reemerged as desirable places to live and work. Cities also have reemerged as centers of entrepreneurship and innovation, and as the preferred habitat of the "creative class."

However, economic revitalization and re-urbanization have pushed up the price of real estate, making these cities some of the most expensive office markets in the world—especially for small firms and startups. In the U.S. in Q3 2015, average annual gross asking rents were up 4.8%, year-over-year, and rental growth was particularly robust in downtown markets with large concentrations of technology and creative firms.[6] Among the corporate real estate professionals surveyed by CBRE, containing costs was the second-most important challenge (Figure 2).

On the other hand, the older, underutilized office buildings, warehouses and industrial structures that populate historic cores are particularly well-suited for reactivation by shared workplaces. Their ample light and ventilation and open floor plans lend themselves well to creating collaborative and community-oriented work environments. Gensler's Robert Jernigan pointed out that many owners are reimagining and subsequently "hacking" Class A buildings to attract more youthful, diverse and dynamic tenants and uses. Attracting shared workplaces suits this strategy as well.

COMMUNITY

Professional priorities and work styles are changing quickly as millennials make their way up the professional ranks and as baby boomers retire. Raised in a world saturated with social media, millennials express a strong interest in community and having workplaces as social spaces. According to CrossCampus Co-Founder and CEO Ronan Olshansky, millennials are driving an economic shift as they prioritize experience over consumption, and the new workspaces are in sync with this.

An emphasis on community also corresponds with the blurring of work-life distinctions, the increasing informality of the workplace, and management's shift away from prizing hierarchy and the corner office, toward promoting flatter organizations, decentralizing decision-making, and spurring collaboration.

Increasingly, shared workplaces are built around the belief that collaboration and community lead to innovation and a more meaningful work environment. To this point, nearly half of respondents in the CBRE Research user survey cited community as a quality they value in their co-working space, and nearly a third chose collaborative opportunities (Figure 4). These environments tend to have a less hierarchical structure that is conducive to "creative collisions" among a diverse set of members.

Finally, being part of a professional community can have productivity benefits: According to the CBRE Research user survey, 61% of respondents joined a shared workplace space to get out of the house and away from the isolation and distractions that a home presents.

In this economy, there is a shift from valuing status to valuing performance...Places and spaces need to reflect this.

Thom Mayne, Morphosis

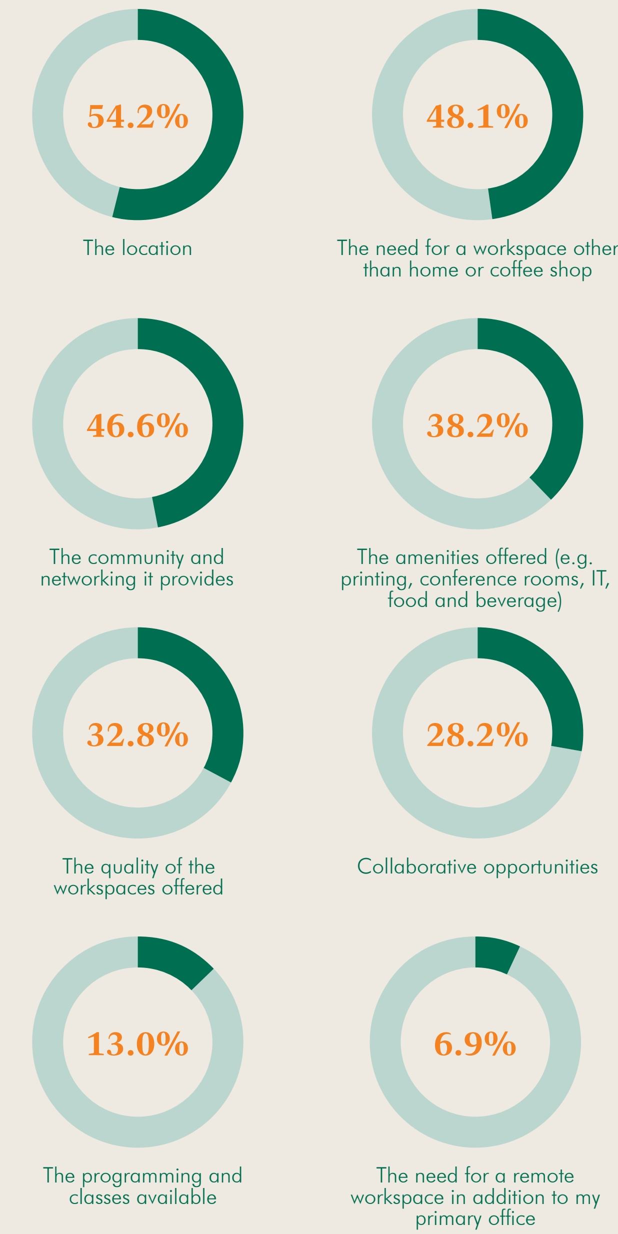
6: CBRE U.S. Office MarketView, Q3 2015.

People come in for the flexible situation and they walk out with an appreciation for the community and culture.

Jerome Chang, BlankSpaces

FIGURE 4: USERS' ASSESSMENT OF THE BENEFITS OF COWORKING

Question: What do you find most beneficial about your co-working provider? (Up to three responses possible)



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

4.8% Increase in average annual gross asking rents Q3 2015

Source: CBRE U.S. Office MarketView, Q3 2015.

CONCLUSION

The advent of co-working has brought unprecedented interest in the shared workplace segment. New product offerings are coming onto the market on a regular basis—in more and more locations and growing in scale.

While the shared workplace segment, like other real estate segments, is subject to the cyclicality of markets, innovations and growth in the segment are tied to a number of enduring megatrends that are shaping workplaces and the business environment more broadly. These durable trends suggest that the new developments in shared workplaces are here to stay.

Many questions remain. In upcoming reports, we will explore in greater detail the implications for corporate occupiers and landlords and investors. We will also investigate today's users of shared workplaces.

CONTACTS

FOR MORE INFORMATION ABOUT THIS REPORT:

Spencer Levy
Americas Head of Research
+1 617 912 5236
spencer.levy@cbre.com
Follow Spencer on Twitter: @SpencerGLevy

Julie Whelan
Americas Head of Occupier Research
+1 617 912 5229
julie.whelan@cbre.com

DJ Peterson
President
Longview Global Advisors
+1 310 892 1521
dj@longviewglobal.com

Mary Cline
Director of Research
Longview Global Advisors
+1 202 746 8438
mary@longviewglobal.com

Andrea Cross
Americas Head of Office Research
+1 415 772 0337
andrea.cross@cbre.com

FOR MORE INFORMATION ABOUT CBRE'S GLOBAL WORKPLACE SOLUTIONS:

Whitley Collins
President
Occupier Advisory and Transaction Services, Americas
+1 310 363 4842
whitley.collins@cbre.com

Karen Ellzey
Executive Director
Management Consulting
Global Workplace Solutions
+1 617 869 6154
karen.ellzey@cbre.com

Georgia Collins
Senior Managing Director
Workplace Strategy
+1 415 9717683
georgia.collins@cbre.com

Matthew Toner
Associate Director
CBRE Institute
+1 302 373 0903
matthew.toner@cbre.com

ABOUT THIS REPORT

This is the first 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 in the financial services sector and the other more than 130 co-working users. Thank you to coworking providers Cross Campus, Hera Hub, Grind, and Epic Spaces for contributing to the end user survey.

ABOUT LONGVIEW GLOBAL ADVISORS

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.