

Shared workspaces

United States Office | Spring 2016



com·mu·ni·ty

/kə 'myoʊnədə/

derived from the French word *comuneté* first used in the 12th century, is more modernly known as a “unified body of individuals: (variant) as a body of persons of common and especially professional interests scattered through a larger society.”

The sharing economy goes to work

Over the course of this current economic cycle, there has been a significant shift in both the way people work as well as where that work gets done. Paired with a rise in entrepreneurialism and the new sharing economy, shared workspace has emerged in recent years as the perfect answer to small business needs. Serviced offices provide not only the obvious, a serviced office, but a plethora of amenities as well as flexibility. Not only that, the design of these shared workspaces incorporates all of the must-haves in a collaborative work environment, and then some. It's not hard to see why this model has become wildly popular not only in major urban markets, but growing secondary markets as well. But how big can this industry get and how resilient is the model in an economic downturn?

HERE'S OUR TAKE ON SHARED WORKSPACE

1

The industry is growing—and fast: Operating in more than 27 million square feet today, the shared office sector will continue to grow over the next two to three years until the cycle slows, but its sustainability through a downturn is still unknown.

2

Size matters...and location, too: Brand and reputation will ensure a certain level of success for the largest players, but strategic locations will also play a role in the success or failure of a share office provider.

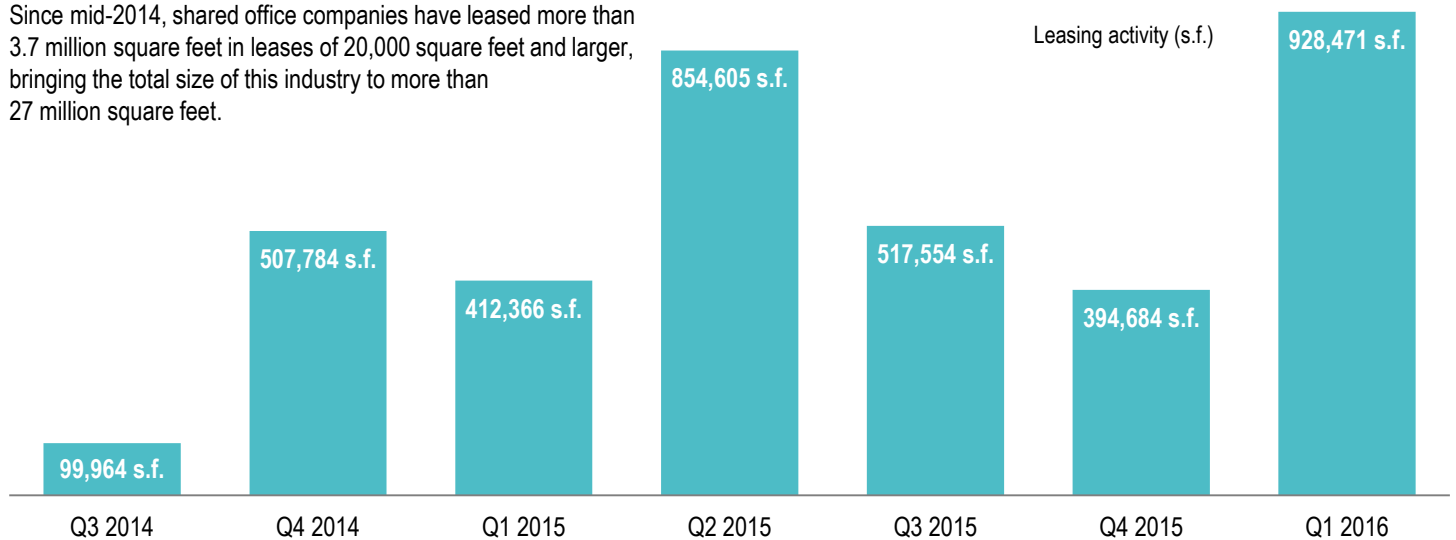
3

More money, more problems: Flexibility and amenities come at a premium and for shared office customers the cost-benefit of those two factors may not make sense for some in an economic downturn, but they are certainly nice to have.



THIS INDUSTRY IS GROWING—AND FAST!

Since mid-2014, shared office companies have leased more than 3.7 million square feet in leases of 20,000 square feet and larger, bringing the total size of this industry to more than 27 million square feet.



Source: JLL Research

Growth in this sector isn't surprising. A quick look inside many of these offices would sell anyone on the appeal and demand that this service is generating. Companies like WeWork, Industrious, MakeOffices, and increasingly, Regus, provide a designer work environment with amenities and perks similar to those of popular technology companies.

Additionally, the pipeline of potential customer demand is expected to increase. The U.S. Bureau of Labor Statistics estimates that the number of freelancers, temps, independent contractors and solopreneurs will grow from 30 percent of the workforce today to 40 percent of the total workforce over the next five years. They'll need a place to work.



SIZE MATTERS...AND LOCATION, TOO!

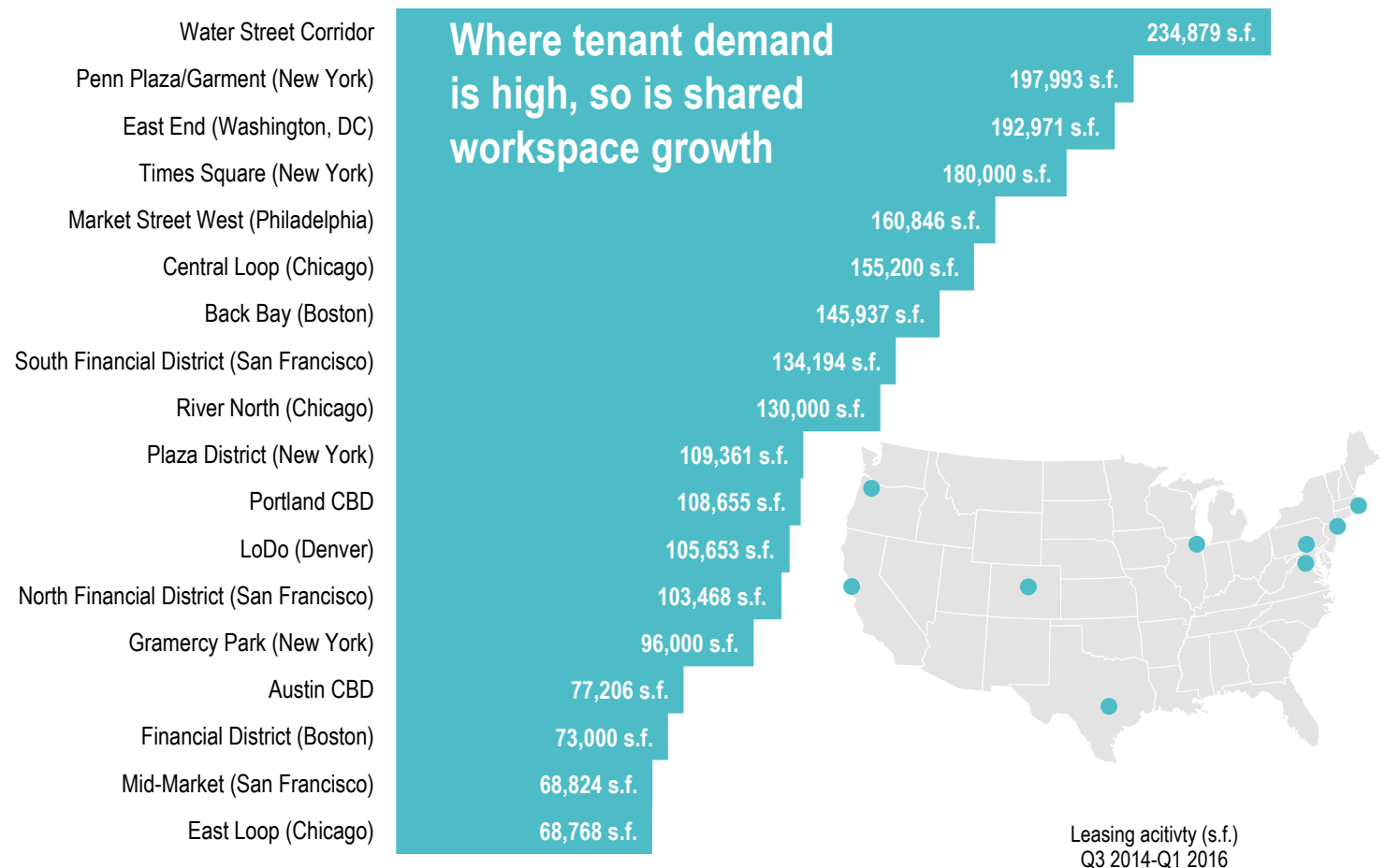
To be sure, this industry is neither new nor significant in size, comprising just 0.7 percent of the total U.S. office market, and that number is even smaller when looking outside of primary markets and hot secondary markets. However, there are some companies that lease more space than others and with size and scale come certain advantages. A well-known brand cultivates a stronger customer base and makes it easier to capture a higher share of demand.

Additionally, location remains key. Just as many corporates look to urban markets and CBDs to locate for recruitment and retention purposes, so too do shared workspaces target the most in-demand locations to set-up shop. Over the past two years, 90 percent of leasing activity in this sector has taken place in Class B and C buildings, and two-thirds of leasing activity is within urban and mixed-use submarkets that cater to today's millennial workforce.

Company	Total s.f. leased	Number of U.S. locations
Regus	~17 m.s.f.	~960
WeWork	4.4 m.s.f.	68
Premier Business Centers	730,000	51
Carr Workplaces	356,000	23
CIC	247,566	4
MakeOffices	232,000	6
TechSpace	112,072	5
Atlanta Tech Village	103,000	1
Servcorp	100,748	14
Galvanize	93,599	2

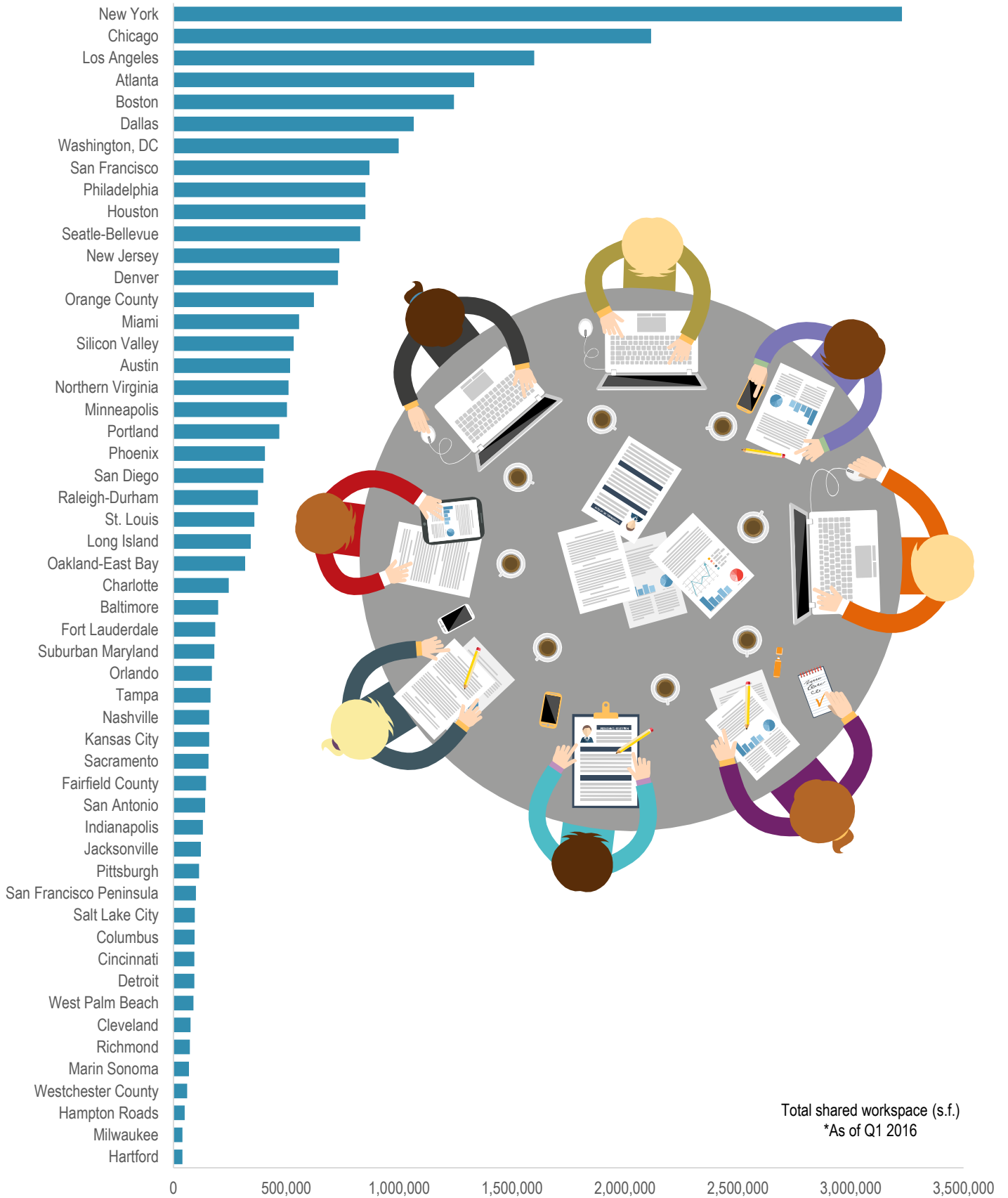
*As of Q1 2016

For landlords this is good news. Not only are co-working companies leasing at in-demand buildings, but they're moving to submarkets where office market fundamentals and tenant demand are strongest, assuring shared office companies a certain level of success (and resilience) based solely on location.



Source: JLL Research

SHARED WORKSPACE ACROSS THE U.S.



Total shared workspace (s.f.)
*As of Q1 2016

Source: JLL Research

MORE MONEY... MORE PROBLEMS

Office space is expensive. Not only is the office space expensive, but the furniture, the office supplies and machines, the phones and internet, and the ever important beverages are also expensive. Shared office companies have you covered. Additionally, the lost time and productivity in setting up a new office is eliminated in the shared office model. You sign up for a desk today, you meet your new desk (and desk mates) tomorrow. Just because a small business isn't paying for all of these things on their own, however, doesn't mean they're free.

Shared offices come at a premium. A sampling of shared office pricing across major U.S. markets revealed a price per square foot of \$139 for shared office spaces, compared to an average Class A CBD rental rate of \$49.59—a 181 percent premium. When looking at average rental rates overall, that premium jumps to 331 percent.

WHAT'S INCLUDED IN THE PRICE?

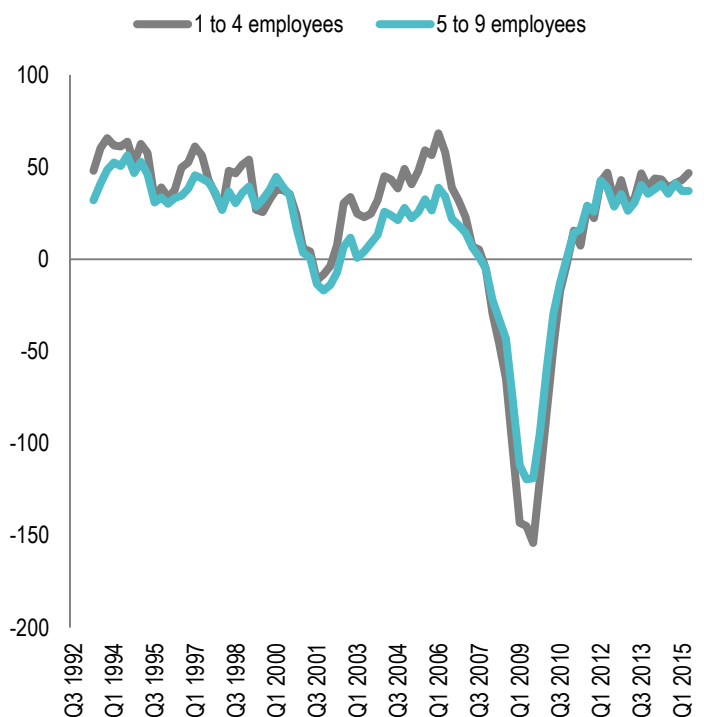
- 1 Trendy furniture and décor**—style alone renders a feeling of luxury that would of course cost more
- 2 Office stuff**—internet, phones, paper, water, coffee, tea
- 3 Extras**—snacks, beer, fresh fruits and juices
- 4 Business tools**—invitations to networking events, management consulting workshops, access to industry pros
- 5 The intangibles**—the chance to meet like-minded people or future partners/employees, a collaborative environment that is inspiring, a place to go to work and feel productive instead of sitting on your couch, and a community

The numbers are startling for sure, but in addition to the many amenities and perks comes one important cost that's harder to quantify: flexibility. For start-up companies especially, this flexibility provides a certain degree of agility and a faster speed-to-market should that next round of venture capital funding come through and allow the addition of 10 new employees. A start-up on the move isn't saddled with a long lease term and the responsibility of being a sub-landlord.

For other small businesses, however, the premium charged today may become a burden once the economy moves into its next recession. As businesses contract and a larger share of the market becomes available for sublease at a significant discount, cost will become a more important factor in the decision-making process. (And there's always the ultra-affordable home office.)

Additionally, many small businesses just may not survive. During the last recession, 1.8 million businesses ranging from one to nine people failed. As the shared office industry has grown, so too has its exposure to potential business failures.

Quarterly net change by firm size class, seasonally adjusted (in thousands)



Source: Bureau of Labor Statistics

NOW... AND FOREVER?

Shared office space makes a lot of sense. The flexibility afforded entrepreneurs and small businesses is hard to beat and the environment is amazing, but the model's staying power at this scale and with this workforce demographic is untested through a downturn.

Consider this: The sharing economy emerged largely as a result of the last recession. Shared subleases from cost-cutting companies were a trend that's turned into a business fueling the likes of Pivot Desk and Liquid Space. As low-cost sublease space increases upon the next economic slowdown, the premium charged for shared office space may become a tough cost to swallow when revenues are shrinking and

venture capital dollars are disappearing. Going back to the shared sublease, your neighborhood Starbucks, or your living room becomes a smart business move.

Does that mean that demand for shared office space disappears in a recession? No. And in fact, there may be a new supply of customers to be captured as companies shed leased space and wait for an economic downturn to pass, but there will be winners and there will be losers in this industry, just like any other.



For more information, contact:

Julia Georgules

Director of U.S. Office Research
+1 415 354 6908

Julia.Georgules@am.jll.com

Phil Ryan

Research Analyst; Office Research
+1 202 719 6295

Phil.Ryan@am.jll.com

© 2016 Jones Lang LaSalle IP, Inc.
All rights reserved. All information
contained herein is from sources deemed
reliable; however, no representation or
warranty is made to the
accuracy thereof.

