



Newmark
Knight Frank

THOUGHT LEADERSHIP SERIES

THE FUTURE OF COWORKING AND FLEXIBLE OFFICE SPACE: FIVE POTENTIAL PATHS

DECEMBER 2018

TABLE OF CONTENTS

I. The Growth of Coworking and Flexible Office Space.....4

II. Five Possible Paths for the Future of Coworking and Flexible Office Space:

» Scenario 1.....6

» Scenario 2.....8

» Scenario 3.....9

» Scenario 4.....10

» Scenario 5.....11

» Which of These Five Possible Paths is Most Likely to Occur?.....13

III. Appendix

A. Recent Coworking and Flexible Office Space Growth in 24 U.S. Metropolitan Areas and Five Scenarios for the Future.....14

B. Fast Facts About Coworking in 24 U.S. Metropolitan Areas16

KEY FINDINGS

» During the past two years, **the office space occupied by coworking and flexible office space providers has grown significantly**, more than doubling its inventory in many major markets. Based on the 24 metros studied for this analysis, coworking currently occupies 49.7 million square feet of office space, which equals **1.4% of inventory in these large U.S. metro areas**.

» There are three types of arrangements that generally fall under the nomenclature of coworking space: pure coworking, executive suites, and flexible office space. For purposes of this study, we will **use the term coworking to describe the entire universe of these various arrangements**, although they do have notable differences as detailed on pages 4 and 5.

» **Office property owners are beginning to partner with coworking operators using a management agreement format** instead of a long-term lease. This model allows office owners to retain control of the space and capture a share of the profits, while allowing the coworking operator to market and manage the space without the risk of committing to a long-term lease.

» The **growth of coworking and flexible office space has been transformative in the commercial real estate market**, with many asset owners and brokerages either acquiring coworking firms or creating their own similar models to capitalize on the growing demand.

» Many tenants are finding coworking and flexible office space to be viable options for their businesses, as those tenants collaborate with their brokers to identify **a tipping point between the rent premium charged for coworking or flexible office space and the additional flexibility** those formats provide via shorter lease terms.

» There are **at least five potential paths** the coworking segment of the U.S. office market could take over the next five years based on coworking's recent growth trends, the paths other industries have taken under similar circumstances, and current changes the industry is undergoing. The range of outcomes includes these five scenarios:

» **Scenario 1:** Coworking **growth accelerates rapidly**, reaching 20% of inventory by 2023.

» **Scenario 2:** Coworking **continues at or near its current pace of growth** but with consolidation within the industry.

» **Scenario 3:** Coworking's rate of **growth slows considerably** to 5% per year. Large players remain a force but find the market is saturated and end ambitious growth plans.

» **Scenario 4:** Coworking is challenged during the next economic downturn and **undergoes significant consolidation**. Current coworking occupancy is reduced by 10%.

» **Scenario 5:** Coworking is **completely disrupted** during the next economic downturn. Current coworking occupancy is reduced by half.

» **Our prediction for the future of coworking most closely aligns with Scenario 2.** We expect that coworking will continue to expand near its remarkable recent rate of growth, but that as the industry matures, larger players will aim to expand market share by acquiring smaller players, resulting in moderate consolidation within the industry. As with other industries, the rate of growth will decelerate as the market matures.

» Ultimately, the model for **how office space is used has been changed radically** by the coworking and flexible office sector. Thus far, the sector **has been largely beneficial** for the U.S. office market. These operators have taken a large amount of vacant space off the market during this cycle. While some of those individual workspaces do remain available, owners are receiving rent on them, revenue those owners otherwise may not have achieved. One thing that seems certain is that the concepts underlying the sector—well-amenitized and flexible office space with shared tenant resources—are here to stay. Though the format will continue to evolve, **tenants have responded to this office space model in a way that will not be undone**.

2 | © NEWMARK KNIGHT FRANK | RESEARCH | DECEMBER 2018

THOUGHT LEADERSHIP SERIES | 3

I. THE GROWTH OF COWORKING AND FLEXIBLE OFFICE SPACE

The coworking and flexible office trend has grown rapidly over the past several years and has become a major focus of the commercial real estate industry in cities nationwide. There has been exhaustive media coverage of coworking trends, with the press chronicling the remarkable path from the start of corporate office suite providers like Regus in the early 1990s, to the advent of pure coworking space with the first WeWork location in New York City in 2010, to the rapid growth and offshoots of coworking into flexible office and amenities/space management today. This growth has been supported by an evolution, from a model that served start-ups, to one that expanded into an enterprise services format, to one that is now focused on those midsize firms that are a critical component of office space demand.

Many tenants are finding coworking and flexible office space to be viable options for their businesses, as those tenants collaborate with their brokers to identify a tipping point between the rent premium charged for coworking or flexible office space and the additional flexibility those formats provide via shorter lease terms. Of course, this balance is market- and tenant-specific, so tenants should work with a qualified broker to evaluate their options. In this study we do not review the entire history of coworking, but it is important to understand the recent past as we explore potential paths the industry could take in the near future. Our goal in this study is to examine the growth of coworking over the past two years and then to establish five possible scenarios for how the sector will evolve during the next five years. In doing this, we examine how coworking has grown in various U.S. metropolitan areas.

During the past two years, the office space occupied by coworking and flexible office space providers has grown significantly, more

than doubling its inventory in many major markets. Based on the 24 metros studied for this analysis, coworking currently occupies 49.7 million square feet of office space which equals 1.4% of inventory in these large U.S. metro areas. The growth rate of coworking in these areas is detailed in the adjacent chart and in Appendix A on pages 14-15.

What is Coworking?

Before examining the future of coworking, we need to define exactly what it is and what it encompasses. There are three types of arrangements that generally fall under the nomenclature of coworking space: pure coworking, executive suites, and flexible office space. For purposes of this study, we will use the term *coworking* to describe the entire universe of these various arrangements, although they do have notable differences as detailed below.

Pure coworking is an arrangement where independent contractors and employees of different companies work in a shared space that usually provides shared services and amenities. It also fosters collaboration among members of different companies to support the cross-pollination of ideas. Pure coworking locations often have an entrepreneurial or creative vibe that was initially aimed at startups and tech workers. However, more recently, pure coworking has expanded its reach to other industries, with even some large corporations placing their employees in coworking space instead of traditional office space. WeWork is the largest and most well known company that offers pure coworking space, although it now offers other arrangements as well, most notably its enterprise services format.

Executive office suites are similar to pure coworking in that there may be employees of different companies working in the same space, but in most cases there is little interaction among members. Executive office suites often provide basic office

amenities like printers and copiers, but have not traditionally sought to provide the networking and community aspect that is present in pure coworking. Regus is the largest and most well-known executive suite provider, although it has recently entered into the pure coworking field with its Spaces brand.

Flexible office space is an arrangement where a single tenant hires a company to house and manage its office needs, including finding and customizing space, and then operating and managing that space. Knotel and Convene are among the best-known firms in this segment of the market.

FOR PURPOSES OF THIS STUDY, WE WILL USE THE TERM COWORKING TO DESCRIBE THE ENTIRE UNIVERSE OF THESE VARIOUS ARRANGEMENTS, INCLUDING PURE COWORKING, EXECUTIVE OFFICE SUITES, AND FLEXIBLE OFFICE SPACE.

RECENT DEVELOPMENTS IN COWORKING AND FLEXIBLE OFFICE SPACE

The coworking trend is constantly evolving. With the immense growth of coworking over the past several years, many tangentially related entities have sought to capture a slice of the growing demand. At the same time, coworking operators have evolved their model to keep pace with changing tenant needs. A few examples include:



Office property owners are beginning to partner with coworking operators using a **management agreement** format instead of a long-term lease. This model allows office owners to retain control of the space and capture a share of the profits, while allowing the coworking operator to market and manage the space without the risk of committing to a long-term lease. Coworking operator Industrious and office owner Rubenstein Partners recently entered into an agreement utilizing this model at the Carlyle Building in Alexandria, Virginia, which is currently undergoing a full renovation. Convene is another example of a company that incorporates both traditional leases and management agreements in its business model.



Coworking operators are increasingly taking on **new formats** aimed at a specific demographic or industry. These include incubators such as Detroit's FinTech Bay, and Minneapolis's Life Time Work, a new coworking concept incorporating health and wellness from gym operator Life Time. Notably, these new concepts mostly are occurring in smaller markets where coworking is just beginning to take off. In New York City—the home base of the coworking industry—most of the smaller niche players gradually have been pushed out by larger players like WeWork, which seeks market domination by offering a variety of platforms designed to appeal to any tenant type. Operators also are **leasing unconventional space** such as converting retail or flex/industrial space into coworking concepts.



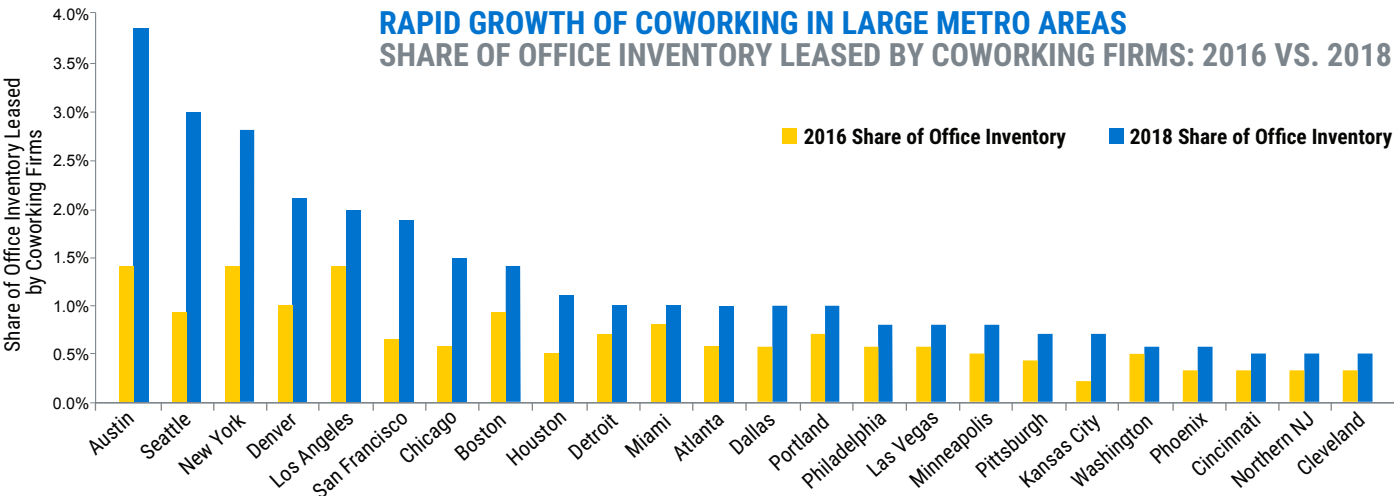
Some **brokerage firms** have entered the market by offering their own coworking solutions. However, they have faced a backlash as some coworking operators that they would traditionally represent in lease negotiations are no longer using their services because of the perceived conflict of interest.



Asset owners are exploring various avenues to enter the coworking space as well. One way is by **acquiring existing coworking companies**. Blackstone, for example, acquired a majority interest in the British company The Office Group in 2017. The Office Group was valued at approximately \$640 million and will be expanding to the United States in 2019. Another example is Brookfield and Onex, which offered International Workplace Group (IWG)—the holding company for Regus and Spaces—an all-cash deal to acquire it in December 2017. Acquisition talks ultimately collapsed in early 2018 and IWG remains in search of a buyer.



Another way asset owners are entering the coworking business is by **offering their own coworking spaces** directly to tenants. Tishman Speyer now offers coworking space in some of its buildings as part of a suite of services and amenities called Zo. In the Washington metro area, WashREIT has carved out nearly 100,000 square feet across its portfolio for its Space+ concept, a combination of coworking space and speculative office suites aimed at federal contractors who need shorter-term office space that is available immediately. Developer MRP Realty favors a “town hall” concept, with several smaller spec suites built around a shared amenity space. This replicates the appeal of coworking while offering tenants more privacy and customization.



Source: NKF Research; December 2018

II. FIVE POSSIBLE PATHS FOR THE FUTURE OF COWORKING AND FLEXIBLE OFFICE SPACE

There are at least five potential paths the coworking segment of the U.S. office market could take over the next few years based on coworking's recent growth trends, the paths other industries have taken under similar circumstances, and current changes the industry is undergoing. Each of these paths will have a varying impact on office market conditions and will have different implications for owners and users of office space. Here we look at five different scenarios for how coworking could grow or contract in the future, ranging from a significant acceleration of growth to a material decline in occupancy. For each scenario, we explore how much space coworking providers will occupy, what types of tenants use coworking in that future, and how the changes will impact owners and tenants. We end each section with action steps based on that future coming to fruition.

SCENARIO I COWORKING GROWTH ACCELERATES RAPIDLY, REACHING 20% OF INVENTORY BY 2023.

In this scenario, coworking continues to accelerate its current pace of growth. Over the past two years, coworking square footage has experienced a 95% increase overall in the 24 large U.S. metros studied for this analysis. That is a striking increase to be sure, but many coworking providers are even more bullish on their market share prospects. Coworking market experts we spoke to for this analysis estimate coworking could sustain demand reaching 30% of office market inventory at its full maturity. Our analysis for this scenario is more conservative given the five-year timeframe, with an estimate of 20% of inventory by 2023. This would result in coworking inventory of approximately 718 million square feet in major markets by 2023 and more than 40 million square feet of coworking inventory in each of the major

markets of Chicago, Dallas, Houston, Los Angeles, New York, San Francisco and Washington, DC.

If this scenario were to come to fruition, coworking would replace traditional office space for a significant share of the market. To get to this number, the trend of enterprise users and larger corporations using flexible office space would continue to accelerate rapidly. We have already begun to see this growth, with WeWork estimating that 25% of its membership is enterprise users, a segment of its business that grew 210% between June 2017 and June 2018.

In this scenario, coworking becomes the norm as companies seek the convenience of already built-out, modern, all-inclusive offices that often provide for an open, collaborative environment. Coworking providers see this trend as a natural extension of the evolution of how corporations consume their real estate. Major corporations secure the flexibility they seek by using coworking and flexible office providers rather than going the traditional route of a long-term lease. There are still some tenant types, such as law firms and the federal government, that often seek traditional leases for privacy, cost or identity reasons, but a large share of office tenants seek coworking space as their primary option. As the industry grows, property owners are forced to adapt their own approaches, or welcome and advance the industry through more

complex leasing arrangements or management agreements. Just as the launch of Uber, Lyft and similar ride-sharing apps upended the taxi industry, owners are forced to adapt, and they adopt the most popular aspects of coworking into their own models.

Action steps: If this is the future of coworking that resonates with you the most, here are some steps to consider in preparation.

For Owners/Investors: Many coworking companies have begun to partner with asset owners by seeking alternate arrangements rather than long-term leases. In most cases, this has taken the form of a management agreement. This is beneficial to the coworking provider in that it avoids a long-term lease commitment in an uncertain future. It is beneficial to the property owner in that it provides amenities management, marketing support, and revenue potential on space that may have otherwise remained vacant. For owners who are concerned this arrangement could hurt future valuation in the event of a sale, some agreements have incorporated the option to convert to a lease in the event of a sale so future buyers can still capitalize on the potential income stream.

For Tenants: In this future, the cost for coworking space will likely decrease as a result of increased competition. Consider whether leasing space from a coworking provider will work for your organization. Since it will be widely available and potentially a similar cost to space leased directly from a property owner, consider which option works better for your business. Of course, some tenant types—such as law firms—may be more suited to having their own space due to privacy and identity concerns.

COWORKING MARKET EXPERTS WE SPOKE TO FOR THIS ANALYSIS ESTIMATE COWORKING COULD SUSTAIN DEMAND REACHING 30% OF OFFICE MARKET INVENTORY AT ITS FULL MATURITY.



PHOTO CREDIT: KNOTEL

SCENARIO 2

COWORKING CONTINUES AT OR NEAR ITS CURRENT PACE OF GROWTH BUT WITH CONSOLIDATION WITHIN THE INDUSTRY.

In this scenario, coworking continues on its current significant pace of growth. Here we assume that the average growth rate these large metros have experienced over the past two years continues for the next five years. This would result in coworking inventory of 347 million square feet in 24 large U.S. markets by 2023, with 12 primary markets hosting 263 million square feet of that coworking inventory. New York, the largest coworking market as of 2018, would see coworking inventory jump to 87 million square feet, or 18.6% of inventory. Overall, coworking would occupy 9.7% of inventory in these 24 metro areas.

If this scenario were to come to fruition, the changes we have seen in the coworking industry over the past two years would continue to progress. The growing trend of enterprise users and larger corporations using flexible office space will continue to accelerate, but not quite as rapidly as in Scenario 1. There will still be a significant uptick, but some industries will decide that the long-term lease route is still more appropriate for their needs. In this future, coworking continues to be an appealing alternative for smaller to mid-sized companies that enjoy the convenience and flexibility that coworking spaces provide, but with a multitude of options available, it becomes harder for coworking operators to differentiate and compete in the market. Larger players look to absorb smaller players to expand their footprint and market capitalization. Industry growth could parallel the recent growth of Amazon, which has acquired a number of companies over time as a strategy to grow its market share (sometimes at the expense of short-term profits), furthering its goal of driving and dominating its industry.



PHOTO CREDIT: KNOTEL

Office property owners will continue to seek ways to partner with coworking providers in this future, but for those who wish to maintain traditional lease agreements directly with tenants, there will still be ample opportunity.

Action steps: If this is the future of coworking that resonates with you the most, here are some steps to consider in preparation.

For Owners/Investors: Flexible spaces have raised the bar for amenities, design, and curated service programs, and owners of traditional space are now tasked with elevating their game. Owners can distinguish their traditional space from flexible space through branding opportunities, such as access control benefits and signage. In addition, office owners who lease part of a building to flexible office or coworking operators have a built-in opportunity to showcase their portfolio to growing firms who may eventually graduate from coworking space, either due to size considerations or because they are simply seeking a different work environment.

For Tenants: In this future, both flexible and traditional office space are equally viable options. Consider which works best for your organization and industry. Decide how important flexibility is for your business and whether it is worth paying a per-square-foot rent premium (although as flexible space and coworking options become more prevalent, that premium may narrow due to increased competition). If future growth plans are less predictable—as is the case for many firms—it could be more cost effective to go the flexible office route rather than be locked into a traditional lease.

SCENARIO 3

COWORKING'S RATE OF GROWTH SLOWS CONSIDERABLY TO 5% PER YEAR. LARGE PLAYERS REMAIN A FORCE BUT FIND THE MARKET IS SATURATED AND END AMBITIOUS GROWTH PLANS.

In this scenario, coworking growth continues, but at a much slower rate than has occurred over the past two years. Since 2016, coworking space has increased at an average rate of 47.5% per year in large metros. This scenario assumes that growth rate slows to 5% per year over the next five years. This would result in coworking inventory of approximately 64 million square feet

in large markets by 2023 and with primary markets having a coworking inventory ranging from 640,000 square feet in Miami to 15.8 million square feet in New York. Overall, coworking would occupy 1.8% of office inventory in large metro areas with a range from 0.6% of office inventory in Cleveland and Northern New Jersey to 4.7% of office inventory in Austin.

If this scenario were to come to fruition, it would be a result of the market finding that the rapid growth coworking has undergone over the past two years has been too much too fast, and is not sustainable. In this future, the market for coworking offerings is becoming saturated, as job growth in office-using industries plateaus. Property owners and brokerages leverage their own assets and build out spec suites to better compete with flexible space providers, and coworking industry growth decelerates rapidly. Coworking providers, especially the smaller niche providers, find it is too difficult to compete in larger markets like New York and San Francisco. Coworking remains a viable and important option for some tenants who use it now, especially the independent contractors and start-ups that occupy pure coworking facilities. However, larger enterprise users may find that the flexible office trend does not work for their business, and that it is not worth the rent premium over traditional office space, stalling growth in that segment. Similar to ongoing changes within the banking industry, smaller players are acquired while the larger players remain functional but adapt via new formats.

In this future, office asset owners seek a balance. Some will partner with coworking providers either via management agreements or long-term leases, but they will still have a significant share of their portfolio under long-term leases directly to users.

Action steps: If this is the future of coworking that resonates with you the most, here are some steps to consider in preparation.

For Owners/Investors: Changing lifestyles and continued functional digitization of office-using industries may result in a reduction of office space needs for traditional tenants. Since this will make the pool of available tenants smaller, consider seeking partnerships with coworking operators, who in this future are a less-risky bet since their expansion has slowed to a more sustainable rate.

For Tenants: Market saturation in coworking means smaller players likely will be acquired or fail. For tenants who occupy coworking space, be aware of this possibility, and consider the size of the coworking company you choose to work with. Tenants who do not currently use coworking space but plan to in this future may see a reduction in pricing as earlier market saturation is gradually resolved.

SCENARIO 4

COWORKING IS CHALLENGED DURING THE NEXT ECONOMIC DOWNTURN AND UNDERGOES SIGNIFICANT CONSOLIDATION. CURRENT COWORKING OCCUPANCY IS REDUCED BY 10%.



In this scenario, the coworking industry is adversely affected when a national recession creates tightening corporate purse strings and pushes startups and independent contractors to cut costs in an uncertain economic environment. In this future, many smaller companies and contractors still use coworking, but demand from enterprise users is reduced significantly, forcing major consolidation within the industry as smaller coworking companies are pushed out or forced to merge. This scenario assumes net growth of coworking space ceases, and that occupancy is reduced by 10% from its 2018 total. This would result in coworking inventory of 44.8 million square feet in large markets in 2023, compared with the 49.7 million square feet occupied by coworking in those markets today. Major coworking markets like New York, Austin and Seattle would still see coworking occupancy of approximately 2-3% of inventory but the overall share in large metros would drop to 1.2% of office inventory.

Consolidation in the coworking industry could mirror the changes the accounting services industry has endured in recent years, as technological advances caused consolidation. Disruption from automation of payments and personal tax preparation, for instance, stemming from easier, more convenient computing and mobile applications, resulted in major consolidations among the largest accounting firms as they went from the Big 8 in the mid-1980s to the Big 6 in the late-1980s to the Big 4 today.

In this scenario, some mid-size corporations in industries that are more suited to weather a national recession continue to use coworking, but many independent contractors and startups forego using coworking in an attempt to cut costs. Large corporations bargain for short-term leases with traditional office purveyors to reduce their capital outlays. Asset owners in this scenario could be affected negatively by the closure or consolidation of some small-to-mid-size coworking companies they hosted as tenants. Of note, some of today's flexible space and coworking operators make the argument that they are well prepared for a recession, as large corporations under economic duress will be seeking the increased financial flexibility coworking offers, rather than accepting the inflexibility of a long-term lease. This is a conceivable outcome, but industry-wide, coworking is still likely to see decreased demand during a recession. The larger coworking players likely would suffer less, however.

Action steps: If this is the future of coworking that resonates with you the most, here are some steps to consider in preparation.

For Owners/Investors: For owners who wish to capture some of the demand from coworking companies, but are wary of their longevity in the case of a recession, consider shorter-term leases and keep coworking to a smaller percentage of your portfolio to balance the risk if this scenario were to occur.

For Tenants: If long-term financial stability is a concern in a recession, consider what the most cost-effective option for office space is for your organization. In most cases, traditional office will be less expensive on a per-square-foot basis, but coworking space provides less risk in avoiding a long-term financial commitment.

SCENARIO 5

COWORKING IS COMPLETELY DISRUPTED DURING THE NEXT ECONOMIC DOWNTURN. CURRENT COWORKING OCCUPANCY IS REDUCED BY HALF.

In this scenario, coworking is completely upended by the next national recession. As independent contractors, start-ups and corporations alike look to cut back on spending, coworking space becomes one of the first cuts to be made. This scenario assumes the recent growth of coworking is reversed and that coworking occupancy is reduced by 50% from its 2018 inventory. This would result in coworking inventory of 24.9 million square feet in large markets in 2023, compared with the 49.7 million square feet occupied by coworking in those markets today. A few of the largest coworking markets would still see coworking occupancy greater than 1% of inventory but most mid-size and smaller markets would be far below that, with the overall coworking occupancy rate for the 24 metros examined in this study at 0.7% of office inventory.

In this scenario, smaller coworking companies no longer can compete in a reduced-demand environment and larger operators find their business models are not profitable and merge to create economies of scale. Some highly profitable mid-size companies still use coworking but many larger tenants focus on leasing space directly from asset owners to reduce short-term costs, notwithstanding longer-term lease commitments. Startups find



PHOTO CREDIT: KNOTEL

the cost of coworking is out of reach and migrate back to other arrangements such as coffee shops and home offices.

The retail industry experienced a similar story with the downfall of the daily deals phenomenon during the Great Recession. Discount and voucher retailers, including companies that were ubiquitous at the time, such as Living Social and Groupon, struggled to adapt to a changing consumer landscape, resulting in a quick downturn for the industry. Some companies failed, while others were cannibalized or merged to stay afloat.

With the breadth of coworking options currently available, in this scenario, a recession forces large-scale format change and industry consolidation. Coworking companies without significant capital and loyal customer bases either close or radically change their business plans. Consequently, some asset owners that signed leases with coworking providers are faced with significant exposure.

Action steps: If this is the future of coworking that resonates with you the most, here are some steps to consider in preparation.

For Owners/Investors: Since coworking in its current state has not been tested through a recession, beware of overweighting your portfolio with coworking providers and be wary of full-building leases to coworking companies.

For Tenants: If you prefer coworking space over traditional office space but are concerned that the coworking industry will be significantly impacted in the next recession, consider other similar options like spec suites or landlord-sponsored amenities and service platforms.



THE CONCEPTS UNDERLYING COWORKING—WELL-AMENITIZED AND FLEXIBLE OFFICE SPACE WITH SHARED TENANT RESOURCES—ARE HERE TO STAY.

IN NONE OF THESE SCENARIOS DOES COWORKING CEASE TO EXIST.

1

COWORKING GROWTH ACCELERATES RAPIDLY, REACHING 20% OF INVENTORY BY 2023.

WHICH OF THESE FIVE POSSIBLE PATHS IS MOST LIKELY TO OCCUR?

These are not the only five futures available for the flexible space and coworking sector. These scenarios are intended to be a spectrum from the most bullish growth scenario to the most bearish. It is likely the actual result will fall somewhere in the range of these five potential paths, but importantly, in none of these scenarios does coworking cease to exist. It is our opinion that coworking growth will most closely align with Scenario 2 over the next five years. We expect that coworking will continue to expand at or near its remarkable recent rate of growth, but that as the industry matures, larger players will aim to expand

COWORKING CONTINUES AT OR NEAR ITS CURRENT PACE OF GROWTH BUT WITH CONSOLIDATION WITHIN THE INDUSTRY.

2

IT IS OUR OPINION THAT COWORKING GROWTH WILL MOST CLOSELY ALIGN WITH SCENARIO 2 OVER THE NEXT FIVE YEARS.

3

COWORKING'S RATE OF GROWTH SLOWS CONSIDERABLY TO 5% PER YEAR. LARGE PLAYERS REMAIN A FORCE BUT FIND THE MARKET IS SATURATED AND END AMBITIOUS GROWTH PLANS.

4

COWORKING IS CHALLENGED DURING THE NEXT ECONOMIC DOWNTURN AND UNDERGOES SIGNIFICANT CONSOLIDATION. CURRENT COWORKING OCCUPANCY IS REDUCED BY 10%.

5

COWORKING IS COMPLETELY DISRUPTED DURING THE NEXT ECONOMIC DOWNTURN. CURRENT COWORKING OCCUPANCY IS REDUCED BY HALF.

market share by acquiring smaller players, resulting in moderate consolidation within the industry. As with other industries, the rate of growth eventually will decelerate as the market matures.

Ultimately, the model for how office space is used has been radically changed by the coworking industry. One thing that seems certain is that the concepts underlying coworking—well-amenitized and flexible office space with shared tenant resources—are here to stay. Though the format will continue to evolve, tenants have responded to this office space model in a way that will not be undone.

The coworking model creates both opportunities and challenges for owners of traditional office properties. Most notable in the short term, these operators have taken a large amount of vacant space off the market during this cycle. While some of those individual workspaces do remain available, owners are receiving rent on them, revenue those owners otherwise may not have achieved. Owners of traditional space may wish to continue adapting the best parts of coworking into their own models to maximize their market opportunities. Some owners have already responded with a focus on taking curated services and amenities directly to their customers. As this trend continues to evolve, owners and tenants who are prepared can find opportunities in this space regardless of which path it takes.

III. APPENDIX

A. Recent Coworking and Flexible Office Space Growth in
24 U.S. Metropolitan Areas and Five Scenarios for the Future

2016				2018			2016-2018	2023
MARKET	COWORKING OCCUPANCY (MILLIONS SF)	TOTAL OFFICE INVENTORY (MILLIONS SF)	SHARE OF INVENTORY	COWORKING OCCUPANCY (MILLIONS SF)	TOTAL OFFICE INVENTORY (MILLIONS SF)	SHARE OF INVENTORY	COWORKING GROWTH RATE	TOTAL OFFICE INVENTORY* (MILLIONS SF)
ATLANTA	0.8	144.4	0.6%	1.5	147.3	1.0%	80.2%	152.5
BOSTON	1.6	181.2	0.9%	2.6	183.8	1.4%	62.7%	190.3
CHICAGO	1.5	250.5	0.6%	3.5	236.5	1.5%	125.6%	244.9
DALLAS	1.3	228.9	0.6%	2.3	235.0	1.0%	72.0%	243.3
HOUSTON	1.0	202.2	0.5%	2.3	205.0	1.1%	140.7%	212.3
LOS ANGELES	2.7	193.1	1.4%	4.0	202.1	2.0%	50.9%	209.3
MIAMI	0.4	47.2	0.8%	0.5	47.9	1.0%	40.9%	49.6
NEW YORK	6.2	444.5	1.4%	12.4	451.1	2.8%	98.8%	467.1
PHILADELPHIA	0.8	139.3	0.6%	1.2	144.9	0.8%	39.4%	150.1
PHOENIX	0.3	85.1	0.3%	0.6	87.6	0.6%	89.9%	90.7
SAN FRANCISCO	1.5	232.3	0.7%	4.6	240.7	1.9%	195.0%	249.3
WASHINGTON, DC	1.8	362.6	0.5%	2.3	365.4	0.6%	25.2%	378.3
PRIMARY MARKETS TOTAL	20.0	2,511.2	0.8%	37.7	2,547.2	1.5%	88.2%	2,637.6
AUSTIN	0.9	61.0	1.4%	2.4	62.7	3.8%	171.7%	64.9
CINCINNATI	0.1	36.6	0.3%	0.2	36.9	0.5%	56.6%	38.2
CLEVELAND	0.1	39.2	0.3%	0.2	37.0	0.5%	41.6%	38.3
DENVER	1.0	95.4	1.0%	2.1	99.4	2.1%	114.4%	102.9
DETROIT	0.5	73.9	0.7%	0.8	75.5	1.1%	66.7%	78.1
KANSAS CITY	0.2	73.0	0.2%	0.5	74.3	0.7%	186.2%	77.0
LAS VEGAS	0.2	38.3	0.6%	0.3	38.2	0.8%	15.5%	39.5
MINNEAPOLIS / SAINT PAUL	0.5	116.7	0.5%	1.0	119.0	0.8%	86.9%	123.2
NORTHERN NEW JERSEY	0.5	171.0	0.3%	0.8	169.4	0.5%	56.1%	175.4
PITTSBURGH	0.2	54.2	0.4%	0.4	54.2	0.7%	100.0%	56.2
PORTLAND	0.4	58.0	0.7%	0.6	60.3	1.0%	44.5%	62.4
SEATTLE	0.8	93.9	0.9%	2.9	95.2	3.0%	240.9%	98.5
SECONDARY MARKETS TOTAL	5.5	911.3	0.6%	12.1	921.9	1.3%	119.8%	954.6
GRAND TOTAL	25.5	3,422.5	0.7%	49.7	3,469.1	1.4%	95.0%	3,592.2

NOTE: PRIMARY MARKETS ARE THE 12 LARGEST U.S. METRO AREAS BY EMPLOYMENT BASE. SECONDARY MARKETS ARE MAJOR U.S. METRO AREAS WITH A SIGNIFICANT AND/OR GROWING COWORKING PRESENCE. COWORKING GROWTH RATE FOR 2016 – 2018 COVERS THE PERIOD FROM 3Q16 TO 3Q18. GROWTH SCENARIOS INCLUDE COWORKING SPACE UNDER BOTH LEASE AND MANAGEMENT AGREEMENTS. INVENTORY AND COWORKING OCCUPANCY FIGURES ARE FOR THE ENTIRE METRO AREA OF EACH MARKET EXCEPT NEW YORK, WHICH INCLUDES ONLY MANHATTAN. TOTALS MAY NOT SUM DUE TO ROUNDING.
*ASSUMING 2016-2018 AVERAGE RATE OF INVENTORY CHANGE OF 1.4% CONTINUES THROUGH 2023.

2023									
SCENARIO 1: COWORKING GROWTH ACCELERATES RAPIDLY, REACHING 20% OF INVENTORY BY 2023		SCENARIO 2: COWORKING GROWTH CONTINUES AT CURRENT AVERAGE PACE		SCENARIO 3: COWORKING GROWTH SLOWS TO 5% INCREASE PER YEAR		SCENARIO 4: CURRENT COWORKING OCCUPANCY REDUCED 10%		SCENARIO 5: CURRENT COWORKING OCCUPANCY REDUCED BY HALF	
COWORKING OCCUPANCY (MILLIONS SF)	SHARE OF INVENTORY	COWORKING OCCUPANCY (MILLIONS SF)	SHARE OF INVENTORY	COWORKING OCCUPANCY (MILLIONS SF)	SHARE OF INVENTORY	COWORKING OCCUPANCY (MILLIONS SF)	SHARE OF INVENTORY	COWORKING OCCUPANCY (MILLIONS SF)	SHARE OF INVENTORY
30.5	20.0%	10.7	7.0%	1.9	1.3%	1.4	0.9%	0.8	0.5%
38.1	20.0%	18.2	9.5%	3.3	1.7%	2.3	1.2%	1.3	0.7%
49.0	20.0%	24.1	9.9%	4.4	1.8%	3.1	1.3%	1.7	0.7%
48.7	20.0%	16.2	6.6%	3.0	1.2%	2.1	0.9%	1.2	0.5%
42.5	20.0%	16.1	7.6%	2.9	1.4%	2.1	1.0%	1.2	0.5%
41.9	20.0%	28.0	13.4%	5.1	2.4%	3.6	1.7%	2.0	1.0%
9.9	20.0%	3.5	7.1%	0.6	1.3%	0.5	0.9%	0.3	0.5%
93.4	20.0%	86.6	18.6%	15.8	3.4%	11.2	2.4%	6.2	1.3%
30.0	20.0%	8.1	5.4%	1.5	1.0%	1.0	0.7%	0.6	0.4%
18.1	20.0%	3.9	4.3%	0.7	0.8%	0.5	0.6%	0.3	0.3%
49.9	20.0%	31.9	12.8%	5.8	2.3%	4.1	1.6%	2.3	0.9%
75.7	20.0%	15.7	4.2%	2.9	0.8%	2.0	0.5%	1.1	0.3%
527.5	20.0%	262.9	10.0%	48.1	1.8%	33.9	1.3%	18.8	0.7%
13.0	20.0%	16.6	25.6%	3.0	4.7%	2.1	3.3%	1.2	1.8%
7.6	20.0%	1.4	3.6%	0.3	0.7%	0.2	0.5%	0.1	0.3%
7.7	20.0%	1.2	3.2%	0.2	0.6%	0.2	0.4%	0.1	0.2%
20.6	20.0%	14.7	14.3%	2.7	2.6%	1.9	1.8%	1.1	1.0%
15.6	20.0%	5.7	7.3%	1.0	1.3%	0.7	0.9%	0.4	0.5%
15.4	20.0%	3.5	4.6%	0.6	0.8%	0.5	0.6%	0.3	0.3%
7.9	20.0%	2.0	5.1%	0.4	0.9%	0.3	0.7%	0.1	0.4%
24.6	20.0%	6.9	5.6%	1.3	1.0%	0.9	0.7%	0.5	0.4%
35.1	20.0%	5.5	3.1%	1.0	0.6%	0.7	0.4%	0.4	0.2%
11.2	20.0%	2.8	5.0%	0.5	0.9%	0.4	0.6%	0.2	0.4%
12.5	20.0%	4.0	6.5%	0.7	1.2%	0.5	0.8%	0.3	0.5%
19.7	20.0%	20.0	20.3%	3.7	3.7%	2.6	2.6%	1.4	1.5%
190.9	20.0%	84.4	8.8%	15.4	1.6%	10.9	1.1%	6.0	0.6%
718.4	20.0%	347.3	9.7%	63.5	1.8%	44.8	1.2%	24.9	0.7%

III. APPENDIX

B. Fast Facts About Coworking in 24 U.S. Metropolitan Areas

ATL

ATLANTA'S LARGEST COWORKING PROVIDER IS REGUS WITH 45% OF THE COWORKING MARKET SHARE IN THAT CITY.

AUS

AUSTIN RANKS #1 OF 24 U.S. METROS STUDIED IN SHARE OF OFFICE INVENTORY OCCUPIED BY COWORKING AT 3.8%.

BOS

OWING TO THE REGION'S LARGE CLUSTER OF TECH AND LIFE SCIENCES STARTUPS, CAMBRIDGE INNOVATION CENTER IS THE SECOND-LARGEST SHARED SPACE OPERATOR IN BOSTON'S URBAN CENTER AT 16% MARKET SHARE.

CHI

IN CHICAGO, SPACES RECENTLY LEASED A 78,000-SQUARE-FOOT RETAIL BUILDING FORMERLY OCCUPIED BY SPORTS AUTHORITY, CONTINUING THE TREND OF LARGE RETAIL SPACES BEING CONVERTED TO NEW USES.

CIN

DEMAND FOR COWORKING IN CINCINNATI IS PRIMARILY FROM LARGER CORPORATIONS THAT NEED A SMALL PRESENCE IN CINCINNATI BUT NOT ENOUGH TO WARRANT LEASING TRADITIONAL OFFICE SPACE.

CLE

REGUS IS CLEVELAND'S LARGEST COWORKING PROVIDER WITH 21% OF MARKET SHARE, FOLLOWED CLOSELY BY LOCAL FIRM STARTMART AT 19%.

DFW

WEWORK REMAINS THE LARGEST COWORKING PROVIDER IN THE DALLAS/FORT WORTH MARKET, WITH MORE THAN 300,000 SF OF SPACE LEASED SINCE JANUARY 2017. RECENTLY, IT HAS ANNOUNCED AN OPENING OF THE FIRST WEWORK LABS LOCATION IN THANKSGIVING TOWER BY YEAR-END 2018.

DEN

COWORKING SPACE IN DENVER, BOTH IN TERMS OF SQUARE FOOTAGE OCCUPIED AND NUMBER OF FACILITIES, DOUBLED OVER THE PAST TWO YEARS.

DET

DETROIT WILL SOON OPEN A FIRST-OF-ITS-KIND FINANCIAL TECHNOLOGY INCUBATOR CALLED FINTECH BAY IN A FORMER BANK BUILDING. THE NORTH AMERICAN FLAGSHIP LOCATION WILL CONNECT START-UP ENTREPRENEURS WITH BANKS AND CORPORATIONS.

HOU

OVER HALF OF THE COWORKING SPACE WITHIN THE HOUSTON MARKET IS LOCATED IN SUBURBAN AREAS. IT HAS SPREAD AS FAR NORTH AS THE WOODLANDS, WITH WEWORK EXPECTED TO ANNOUNCE ITS THIRD HOUSTON LOCATION IN 2019, AT HUGHES LANDING.

KC

PLEXPOD WESTPORT COMMONS IN KANSAS CITY IS A PRIME EXAMPLE OF TODAY'S REDEVELOPMENT AND REUSE TREND AS A FORMER VACANT JUNIOR HIGH SCHOOL WAS CONVERTED INTO A PROGRESSIVE COWORKING CAMPUS. THE LOCATION OFFERS 116,200 SQUARE FEET OF COWORKING SPACE SURROUNDED BY 80 ACRES OF PARKS.

LV

REGUS REMAINS THE LEADER IN COWORKING SPACES IN THE LAS VEGAS VALLEY WITH OVER 150,000 SQUARE FEET LEASED, BUT THERE ARE UNIQUE LOCATIONS AND COMPANIES BREAKING THE MOLD. TRUE TO LAS VEGAS FORM, ONE CAN WORK REMOTELY FROM THE VENETIAN LAS VEGAS'S 1,170-SQUARE-FOOT PERMANENT COWORKING SPACE INSTALLED IN 2017.

LA

IN LOS ANGELES, WEWORK IS THE DOMINANT OPERATOR WITH 1.1 MILLION SQUARE FEET ACROSS 18 LOCATIONS, FOLLOWED BY REGUS WITH AN ESTIMATED 874,573 SQUARE FEET ACROSS 48 LOCATIONS.

MIA

COWORKING PROVIDERS IN MIAMI ARE ATTRACTED TO NEW CONSTRUCTION IN MIXED-USE DEVELOPMENTS. WEWORK SIGNED A LEASE IN THE RECENTLY COMPLETED TWO BRICKELL CITY CENTRE AND REGUS LEASED A FLOOR IN THE JUST-FINISHED TWO MIAMI CENTRAL. THESE BUILDINGS ARE THE NEWEST COMPLETIONS IN THE CBD.

MSP

COWORKING IS JUST 0.8% OF OFFICE SPACE IN MINNEAPOLIS/SAINT PAUL BUT GROWTH IS ON THE HORIZON AS NATIONAL COMPANIES WEWORK, INDUSTRIOUS, AND SPACES EXPAND. MINNEAPOLIS IS ALSO HOME TO FUELED COLLECTIVE AND LIFE TIME WORK, WHICH ARE GROWING LOCALLY AND TAKING THEIR CONCEPTS NATIONAL.

NYC

WEWORK IS NOW MANHATTAN'S LARGEST USER OF OFFICE SPACE, SURPASSING JP MORGAN CHASE. KNOTEL, A FLEXIBLE OFFICE PROVIDER, CONTINUES TO GROW RAPIDLY IN NEW YORK AND MORE THAN DOUBLED ITS OVERALL OCCUPANCY IN 2018.

NNJ

COWORKING IS POISED FOR GROWTH IN NORTHERN NEW JERSEY AS WEWORK IS CURRENTLY IN THE MARKET FOR 200,000 SQUARE FEET ALONG THE HUDSON WATERFRONT.

PHL

COWORKING MARKET SHARE IN THE PHILADELPHIA CBD NEARLY DOUBLED BETWEEN THE THIRD QUARTER OF 2016 AND THE THIRD QUARTER OF 2018, RISING FROM 0.8% TO 1.5% OF OFFICE SQUARE FOOTAGE. NEW LARGE LEASES FROM WEWORK, CONVENE, AND THE CAMBRIDGE INNOVATION CENTER DROVE THE CHANGE.

PHX

WHILE MAINSTREAM COWORKING HAS BEEN SLOWER TO COME TO PHOENIX COMPARED WITH SIMILARLY SIZED MARKETS, WEWORK HAS THREE LETTERS OF INTENT FOR APPROXIMATELY 150,000 SQUARE FEET IN TOTAL, REPRESENTING A 26.7% INCREASE OF THE CURRENT COWORKING INVENTORY.

PIT

IN PITTSBURGH, 94% OF COWORKING SPACE IS IN URBAN SUBMARKETS, WHERE THE GROWING POPULATION OF ENTREPRENEURS, STARTUPS, AND FREELANCERS IS BOOSTING DEMAND.

POR

COWORKING COMPANY CENTRL OFFICE WAS FOUNDED IN PORTLAND IN 2014. AS OF NOVEMBER 2018, CENTRL OFFICE HAS FOUR LOCATIONS IN PORTLAND, ONE IN DALLAS AND ONE IN LOS ANGELES.

SEA

AS OF NOVEMBER 2018, WEWORK'S INVENTORY IN SEATTLE TOTALS APPROXIMATELY 1.4 MILLION SQUARE FEET, EQUALING THE COMBINED INVENTORY OF ALL OTHER COWORKING PROVIDERS IN THE CITY.

SF

ASSUMING THAT PENDING LEASES ARE COMPLETED BY THE END OF 2018, WEWORK WILL HAVE MORE THAN DOUBLED ITS NUMBER OF LOCATIONS AND TRIPLED ITS FOOTPRINT IN SAN FRANCISCO IN THE LAST 18 MONTHS.

WAS

THE WASHINGTON METRO AREA'S COWORKING INVENTORY TOTALS 2.3 MILLION SQUARE FEET, APPROXIMATELY HALF THE AMOUNT OF OTHER GATEWAY MARKETS LIKE SAN FRANCISCO AND LOS ANGELES AND ONE-SIXTH THE AMOUNT OF NEW YORK. THIS IS LIKELY BECAUSE WASHINGTON'S TWO LARGEST TENANT TYPES—THE FEDERAL GOVERNMENT AND LAW FIRMS—HAVE NOT YET FULLY EMBRACED THE COWORKING TREND.



PHOTO CREDIT: KNOTEL

SOURCES

In addition to consulting with local market experts and Newmark Knight Frank’s proprietary database of lease comparables and building data, sources include:

- *BISNOW*
 - *BUSINESS INSIDER*
 - *CENTRL OFFICE*
 - *CHICAGO TRIBUNE*
- *COMMERCIAL OBSERVER*
 - *CONVENE*
 - *COSTAR*
 - *THE DETROIT NEWS*
- *FUELED COLLECTIVE*
 - *GLOBE ST*
 - *KNOTEL*
 - *PLEXPOD*
- *REGUS*
 - *WEWORK*

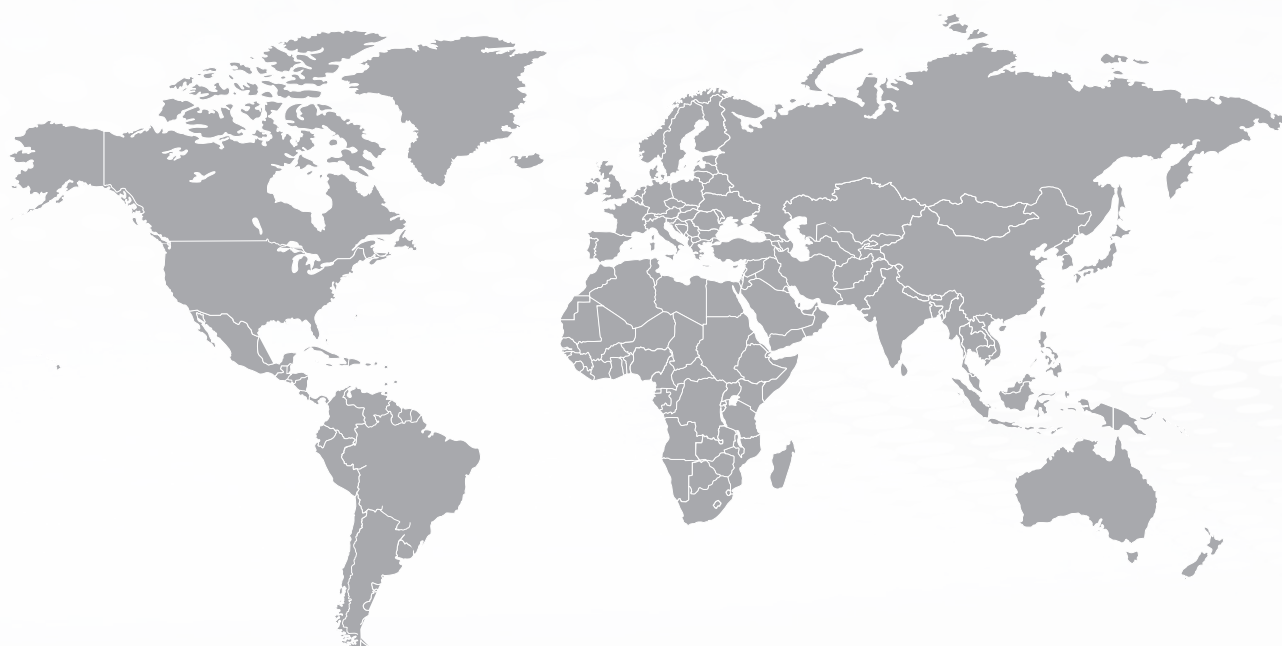
The information contained in this publication is prepared by an affiliate of Cantor Fitzgerald & Co. (CF&Co.) and for informational purposes only. This material is not an offer or a solicitation related to any securities or other investment product. The analysis contained in this publication does not constitute a personal recommendation or take into account particular investment objective, investment strategies, financial situation and needs of any specific recipient. CF&Co. recommends that you obtain financial and/or tax advice as to the implications of investing in the manner described or in any of the products mentioned herein. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may be eligible for sale to investors. All information and opinions expressed in this document were obtained from an affiliate of CF&Co. and another 3rd party source that are believed to be reliable and made in good faith, but no representation or warranty, expressed or implied, is made as to the accuracy or completeness thereof. All opinion and information as well as prices indicated are current only as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of Cantor Fitzgerald L.L.C. ("Cantor Fitzgerald") or its affiliates as a result of using different assumptions and or criteria. The contents of this document have not been, and will not be, approved by any securities or investment authority in the United States or elsewhere. Cantor Fitzgerald and its affiliates disclaim all liability for any loss that may arise from use of the information herein. References herein to past returns of any fund, investment product or market sector are no indication of future performance.

ACKNOWLEDGMENTS

REPORT AUTHOR: Bethany Schneider, Associate Director
REPORT EDITOR: Alexander (Sandy) Paul, Senior Managing Director of National Research
DESIGN: Dan Kidd, Senior Graphic Designer; Omar Bilal, Senior Graphic Designer

REPORT CONTRIBUTORS:

- **ANDREA ARATA**
 - **AMY BINSTEIN**
 - **MAURA CARLAND**
 - **JOHN DEGROOT**
 - **LAUREN DOUGLAS**
 - **DAIN FEDORA**
 - **C-J FORD**
- **ANDREW GARTEN**
 - **STEPHANIE HAWKINS**
 - **GRAHAM HILDEBRAND**
 - **STEPHANIE JENNINGS**
 - **ANDREW KERN**
 - **SILAS LEAVITT**
 - **CHARLES LESUEUR**
- **PAM LOWERY**
 - **JONATHAN MAZUR**
 - **ERIC MESSER**
 - **JOE MORRIS**
 - **MATTHEW ORGOVAN**
 - **BONNIE READD**
 - **MARK RUSSO**
- **NICK SCHLANGER**
 - **JORDAN SCHOTT**
 - **MARIANNE SKORUPSKI**
 - **DANIELA STUNDEL**
 - **JONATHAN SULLIVAN**
 - **KEVIN SWEENEY**



New York, NY

125 Park Avenue
New York, NY 10017
212.372.2000

Washington, DC

1899 Pennsylvania Ave NW
Suite 300
Washington, DC 20006
202.331.7000

NATIONAL RESEARCH CONTACTS

Alexander (Sandy) Paul, CRE, LAI

Senior Managing Director,
National Research
apaul@ngkf.com

Jonathan Mazur

Senior Managing Director,
National Research
jmazur@ngkf.com

Stephanie Jennings

Managing Director,
National Research
stjennings@ngkf.com

Bethany Schneider

Associate Director
bschneider@ngkf.com

North America

Canada
United States

Latin America

Argentina
Brazil
Chile
Colombia
Costa Rica
Dominican Republic
Mexico
Peru
Puerto Rico

Asia Pacific

Australia
Cambodia
China
India
Indonesia
Japan
Malaysia
New Zealand
Philippines
Singapore
South Korea
Taiwan
Thailand

Europe

Austria
Belgium
Czech Republic
France
Germany
Ireland
Italy
Netherlands
Poland
Portugal
Romania
Russia
Spain
Switzerland
United Kingdom

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Middle East

Saudi Arabia
United Arab Emirates



Please recycle,
whenever possible

Sustainably
Newmark Knight Frank