



**CUSHMAN &
WAKEFIELD**

CRE EXECUTIVE PERSPECTIVES ON COWORKING

HOW AND WHY THE FLEXIBLE WORKPLACE MATTERS


**CORENET
GLOBAL**

EXECUTIVE SUMMARY

**PERCEPTIONS OF
COWORKING**

REAL ESTATE COSTS

**WORKFORCE
UTILIZATION**

The phenomenon of coworking continues its aggressive growth. The global inventory is now approximately 125 million square feet (msf), with more than 50 msf of it located in the United States¹. The influx of new space is unceasing with frequent announcements of new leases signed by the industry’s largest players. Traditional real estate firms—both investors and services firms—have also entered the sector to provide flexible workplace solutions directly to their clients. This model has been embraced by much of the corporate real estate (CRE) community and is serving a diverse clientele, long comprised of a mix of global enterprises alongside small and medium firms.

Coworking and flexible workplace are terms often used interchangeably but are not the same thing. Flexible workplace is essentially space as a service: turnkey, technology-enabled and amenitized space with access to hospitality and wellness options. Coworking, which has garnered the largest share of public interest over the past few years, is the entry-level form of flexible workplace.

This lack of clarity and specificity in defining the services provided by coworking and flexible workplace providers can impact how the sector is perceived, as can misunderstandings regarding costs and the value proposition offered, the prioritization of company culture and employee experience, and varied concerns associated with connectivity and digital security. The 2019 CoreNet and Cushman & Wakefield Coworking Survey² delves into the CRE executives’ opinions of and experiences with this fast-growing, but still nascent sector.

Despite confusion and some concerns, it is clear from respondent feedback that coworking is becoming more widely used and more positively viewed by the CRE community. Nearly two-thirds of respondents indicate their organization is currently utilizing coworking in some way within their portfolio. A majority of respondents have a positive perception of coworking, while fewer than 10% view coworking in a negative light. Direct interaction with coworking bolsters positive perceptions of the sector.

63%

Global organizations who are currently utilizing coworking somewhere across their portfolio.

- Highest in Americas: 66%
- Lowest in Asia Pacific: 58%

57%

The majority of corporate real estate executives have a positive or very positive view of coworking.

- One-in-ten have a negative or very negative view

34%

Overall real estate costs decreased by more than 5% for one-third of organizations when utilizing coworking.

- Only 20% experienced cost increases of over 5%

5x

The median company surveyed has 3% of its employee base currently utilizing coworking on a regular basis. This is expected to grow fivefold in the next five years.

Concerns

Largest corporate concerns when utilizing coworking and shared space

- Digital security
- Company culture / cohesion
- Personal privacy

¹ CoStar Group; Cushman & Wakefield Research

² It is likely that respondents to the survey are thinking broadly about flexible workplace solutions when responding to the survey. The term “coworking” is utilized throughout this report because it was the wording in the actual survey.

EXECUTIVE SUMMARY

Corporations currently utilizing coworking are significantly more likely to have a positive view of coworking (66% vs. only 41% of companies not currently utilizing coworking). Additionally, respondents at corporations not currently utilizing coworking are nearly three times as likely to have a negative perspective of the sector (16.2% vs. 5.5%).

In addition to understanding current usage and overall perceptions of coworking, the survey uncovers other key themes emerging from global CRE executives' perspectives including:

COSTS:

Coworking is viewed widely as cost-neutral with half of all respondent indicating they have experienced a minimal impact on CRE costs. This perception is highest in Europe, Middle East and Africa (EMEA) and lowest in Asia Pacific (APAC). Over one third of respondents in both APAC and the Americas experienced CRE cost reductions when implementing coworking.

Two of the most common attractions to coworking as a workplace solution are increased flexibility and an ability to manage costs, so of course current perceptions and future expectations of use are both greatly aligned with respondents' perceptions of coworking's cost impact. The opinion of coworking is higher among companies where coworking has helped lower CRE costs. And, those same companies are twice as bullish on the proportion of their employees that will be utilizing coworking in some capacity two years from now (29% vs. 15%).

UTILIZATION:

Across the globe, the average respondent company has 12% of its employees currently utilizing coworking on a regular basis. This more than doubled from two years ago (5%) and is expected to double again over the next five years (24%). Utilization is consistent across the three global regions with slightly higher usage in EMEA (13% vs. 11.9% in APAC and 10.8% in the Americas). Growth over the next five years will be highest in APAC with expected utilization hitting 25.2% in 2024, followed by the Americas (23.3%) and then EMEA (21.7%).

More than half of organizations had no employees accessing coworking two years ago. Today, only one fourth of companies have zero employees utilizing coworking on a regular basis. The median percentage of employees regularly working out of a coworking location went from 0% two years ago to 3% in 2019 and is expected to jump to 15% in five years.



METHODOLOGY

Cushman & Wakefield, in partnership with CoreNet Global, gathered CRE executive feedback on their organizations' experience with and perceptions of the coworking sector. Responses were collected from attendees at the 2018-2019 CoreNet Global Summits in Boston, Madrid and Hong Kong. Global and regional corporations headquartered around the world are represented by the 579 responses collected. The following report explores the key findings uncovered from respondent feedback, including general perceptions of coworking, current usage, the pros and cons of coworking, expected impacts on cost, and past and future employee utilization of flexible office spaces.

PROS & CONS:

CRE executives are generally in agreement about the main benefits and downsides of coworking solutions in their real estate portfolios. Across all global regions the top two benefits are flexibility (i.e., the ability to quickly ramp portfolio up/down) and reduced real estate costs. Some variations exist with APAC and EMEA companies driven more by the opportunity for networking with other companies and employees, while Americas and EMEA respondents were more likely to cite the attraction and retention of employees as a key benefit.

Digital security is the most commonly cited potential downside in each region, but is much more salient in EMEA with 70% of respondents selecting this as a concern (vs. 54% of Americas and APAC respondents). Approximately half of all respondents indicate decreased company culture and cohesion and personal privacy are main downsides of coworking. After these top three concerns there is a steep drop with no more than 20% citing any of the other answer options: decreased employee engagement and satisfaction, increased real estate costs and decreased efficiency of employees.

Flexible workplace solutions have become a common part of CRE executives' real estate strategy, and as exposure has increased so have the positive feelings towards the sector. Nearly two-thirds of respondents' organizations (63%) are currently utilizing coworking in some capacity across their portfolios. General perceptions of the sector are overwhelmingly positive with 57% having a "positive" or "very positive" perception, a third of respondent companies having "neutral" feelings about the sector and one-tenth of respondents citing a "negative" or "very negative" perception. Organizations currently utilizing coworking are generally more positive in their perspective (66%), with only 6% having a negative perception. These trends are consistent across regions.

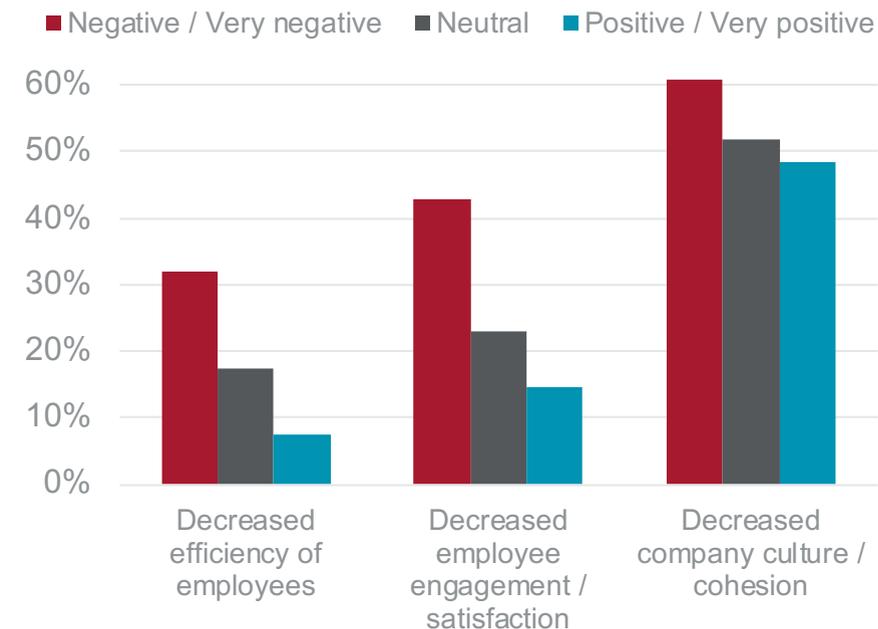
The primary perceived benefit of coworking is the flexibility it offers corporations with fluctuations in their portfolios. Approximately 70% of respondents in all three regions cite this as the main benefit. Cost reduction is the second most commonly selected benefit and is most likely to be cited by respondents in the Americas. Organizations with positive views of the coworking sector are considerably more likely to see positive impacts for their employees—attraction and retention, efficiency, and employee engagement.

While it is seen as a benefit to employees, a main concern of coworking is its potentially negative impact on company culture and cohesion. If space is not customized to the company's culture and/or employees are in the same space as other workers outside of the organization, it is harder to reinforce the brand and culture that is so important in maintaining company cohesion and a sense of purpose. As expected, there is a linear relationship between overall perceptions of coworking and the degree to which these downsides are cited as concerns. However, nearly half (48%) of respondents with a positive view of coworking still are concerned about the decrease in company culture and cohesion. Of course, traditional office space is not guaranteed to strongly reinforce company culture. Space—shared or not—is one component in culture building, but so is leadership, communication and the amount of energy willing to be exerted on building and maintaining an organization's culture.

The other two potential downsides cited by at least 40% of respondents relate to security and privacy: increased digital security concerns and decreased personal privacy. Digital security is a bigger perceived issue in EMEA, as is decreased company culture and cohesion. These concerns may be unfounded given that many global providers offer privacy protection via dedicated VPNs, server rack space and even FINRA compliance.

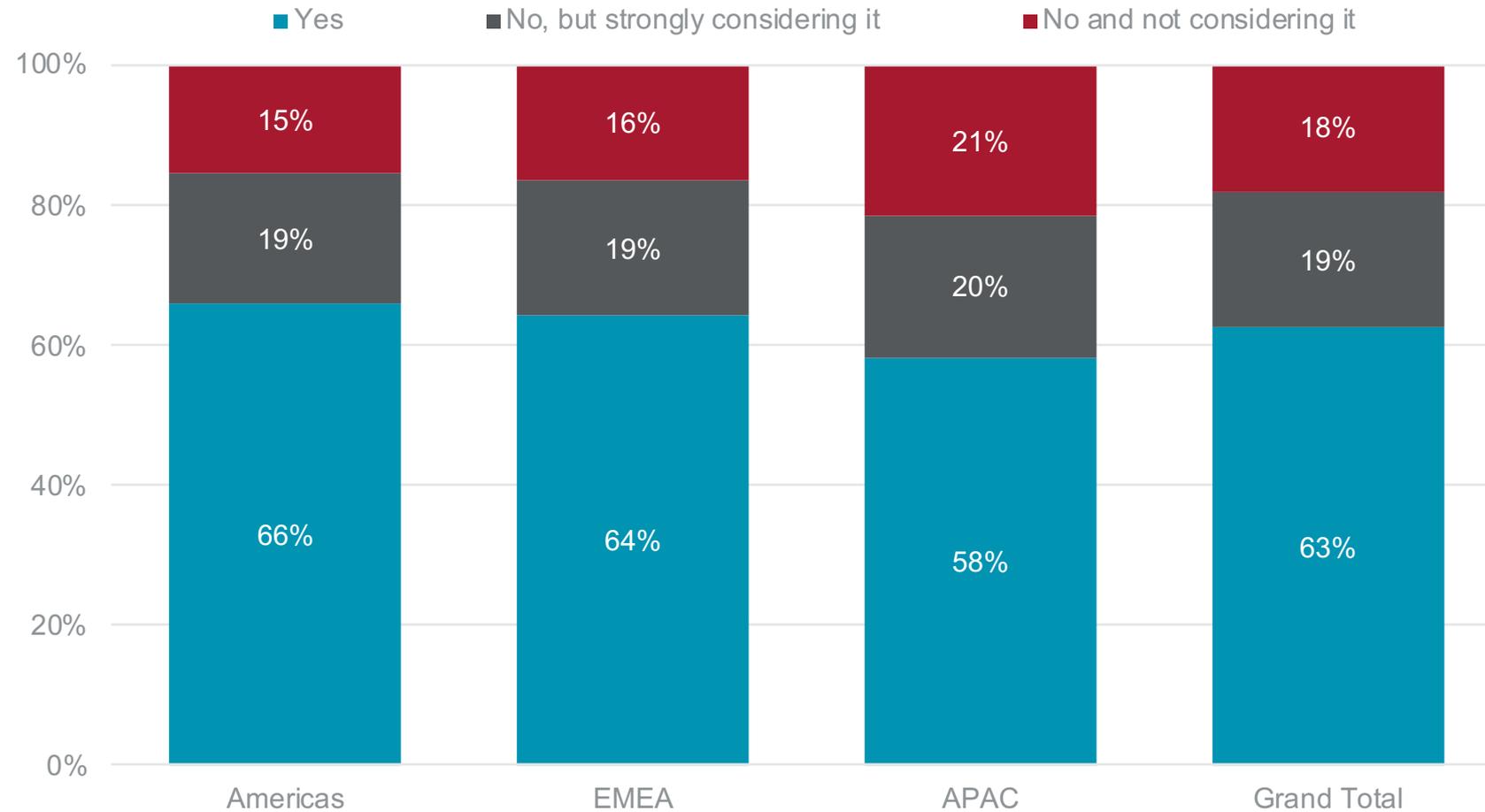
All of these concerns need to be taken into account when occupiers consider flexible workplace solutions. In cases where the occupier controls the entire space, it is considerably easier to control for security and privacy while customizing the space to emphasize company culture.

What are the main downsides of implementing coworking as part of a company's real estate portfolio?



GENERAL PERCEPTIONS OF COWORKING

Is your organization currently utilizing coworking anywhere across your portfolio?



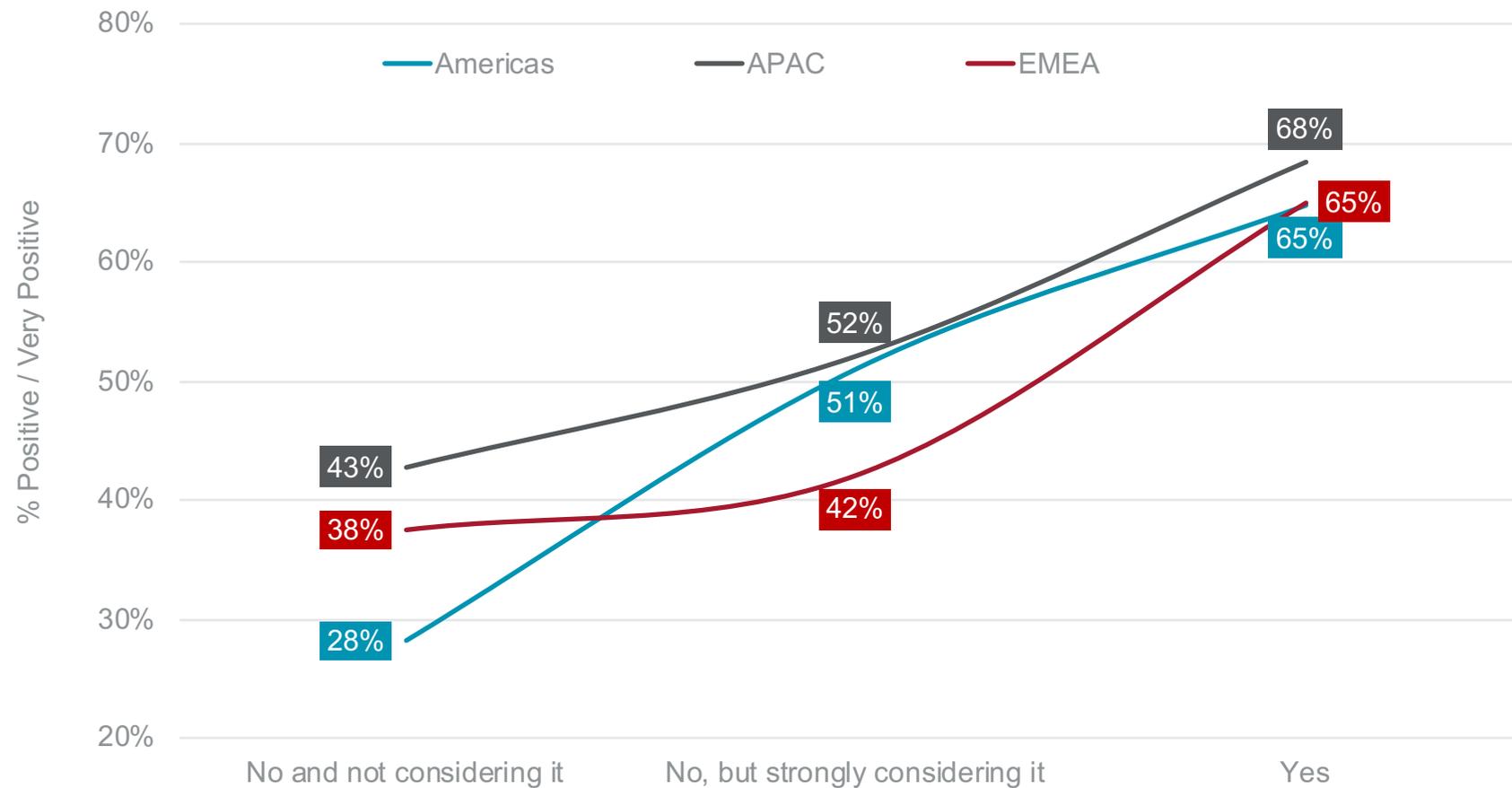
Current Utilization

MAJORITY OF RESPONDENT COMPANIES (63%) ARE CURRENTLY UTILIZING COWORKING IN SOME MANNER.

- Nearly two-thirds (63%) of respondents are currently utilizing coworking somewhere across their organization's portfolio.
- The proportion is highest in the Americas. The United States has the largest coworking inventory, accounting for approximately 45% of global inventory.
- One-fifth of APAC respondents are currently not even considering coworking in their organization's portfolio.

PERCEPTION OF COWORKING

How would you rate your organization's general perception of coworking?
(% Positive/Very positive)



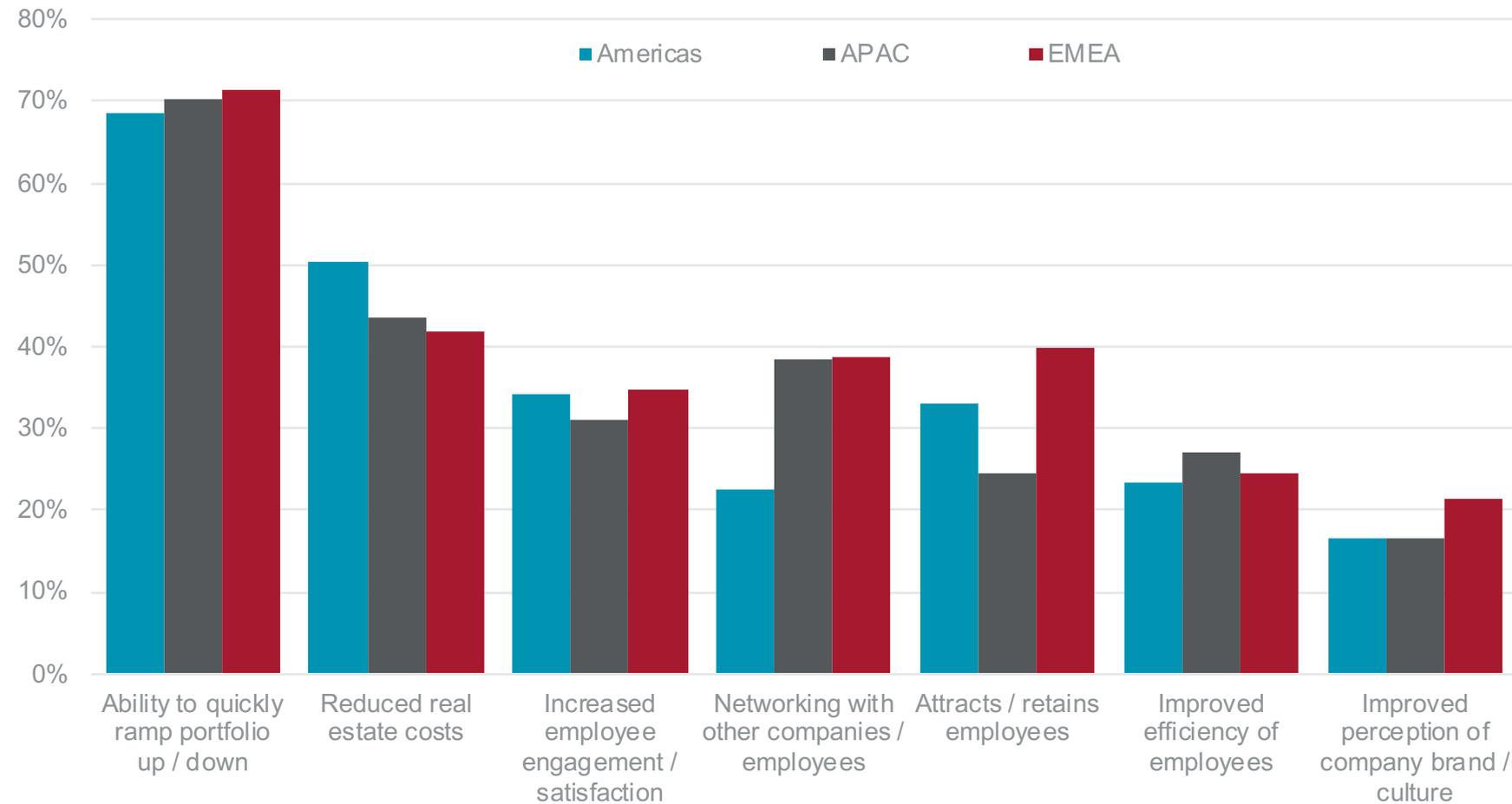
Positive Perception

ORGANIZATIONS CURRENTLY UTILIZING COWORKING HAVE BETTER PERCEPTIONS OF THE SECTOR.

- There is a direct relationship between perceptions of coworking and whether or not a respondent's organization is currently utilizing it in their portfolio.
- Two-thirds of companies currently utilizing coworking have a positive or very positive view of the sector.
- Conversely, just over a third of organizations not considering coworking as a solution have a positive perception of coworking.

BENEFITS OF COWORKING

What are the main benefits of implementing coworking as part of a company's real estate portfolio?



Benefits

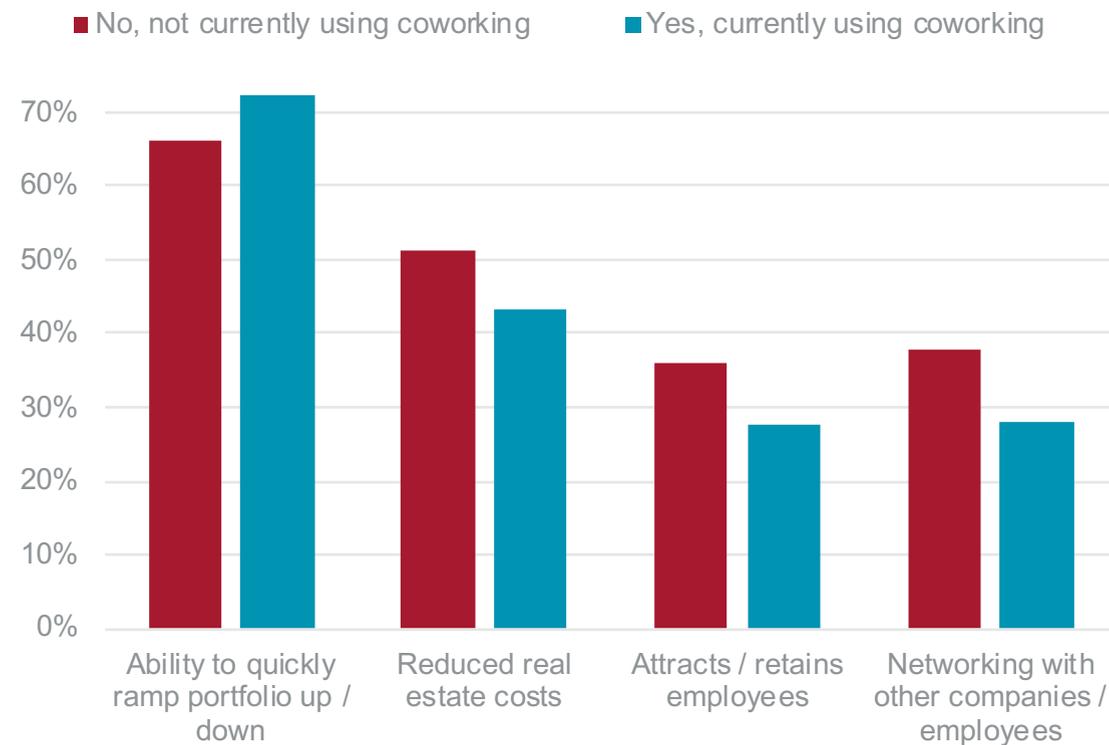
#1 BENEFIT OF COWORKING: PORTFOLIO FLEXIBILITY.

- Regardless of geography, the flexibility coworking offers organizations to ramp up and down their portfolios is the primary benefit, followed by the ability to reduce costs.
- Beyond those two perceived benefits there is variability across the regions. Networking is seen as a less important benefit in the Americas, while attracting and retaining talent is less valuable in APAC.
- Improved perception of brand / culture is last regardless of region.

BENEFITS OF COWORKING

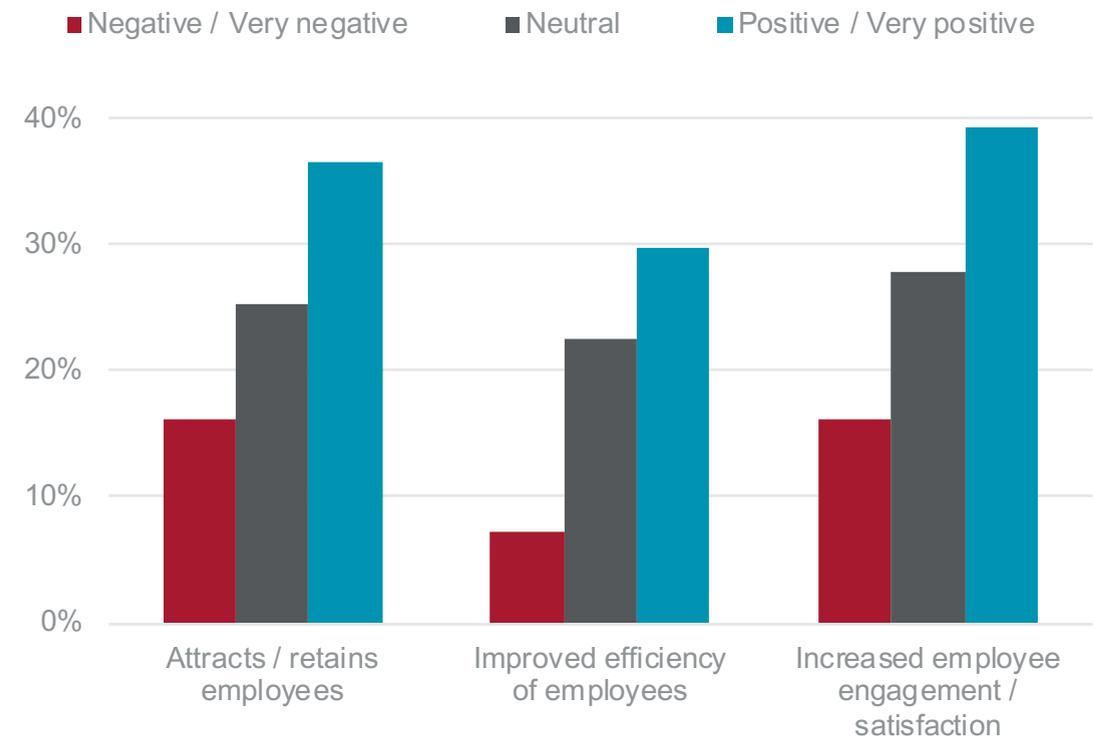
What are the main benefits of implementing coworking as part of a company's real estate portfolio?

Benefits by Current Coworking Usage



COMPANIES NOT CURRENTLY UTILIZING COWORKING ARE MORE LIKELY TO SEE TALENT ATTRACTION AND NETWORKING AS BENEFITS.

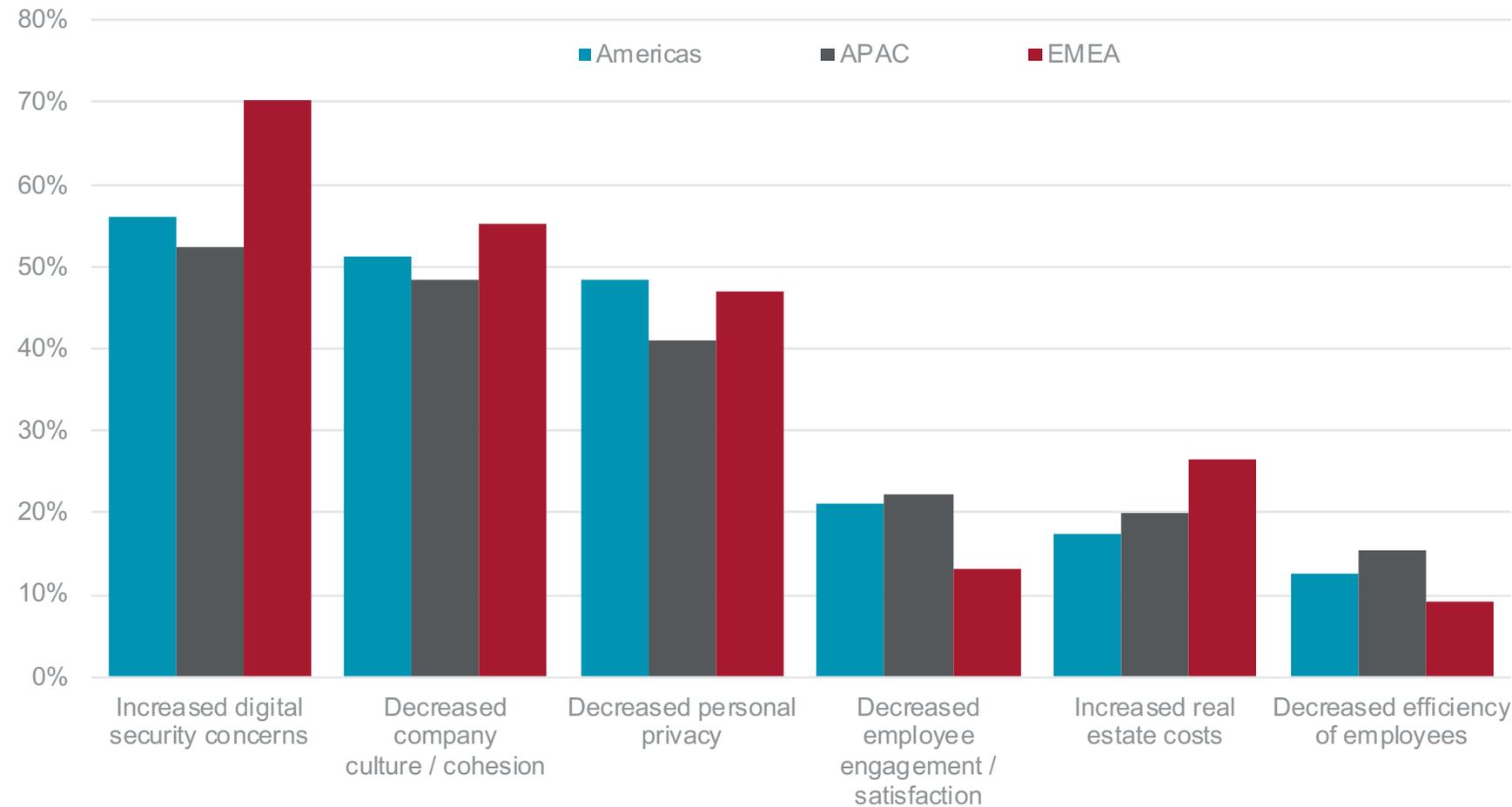
Benefits by Overall Perceptions of Coworking



RESPONDENTS WITH POSITIVE VIEWS OF COWORKING ARE MORE LIKELY TO SEE OPPORTUNITIES TO INCREASE TALENT RETENTION, ENGAGEMENT AND EFFICIENCY.

DOWNSIDERS OF COWORKING

What are the main downsides of implementing coworking as part of a company's real estate portfolio?



Downsides

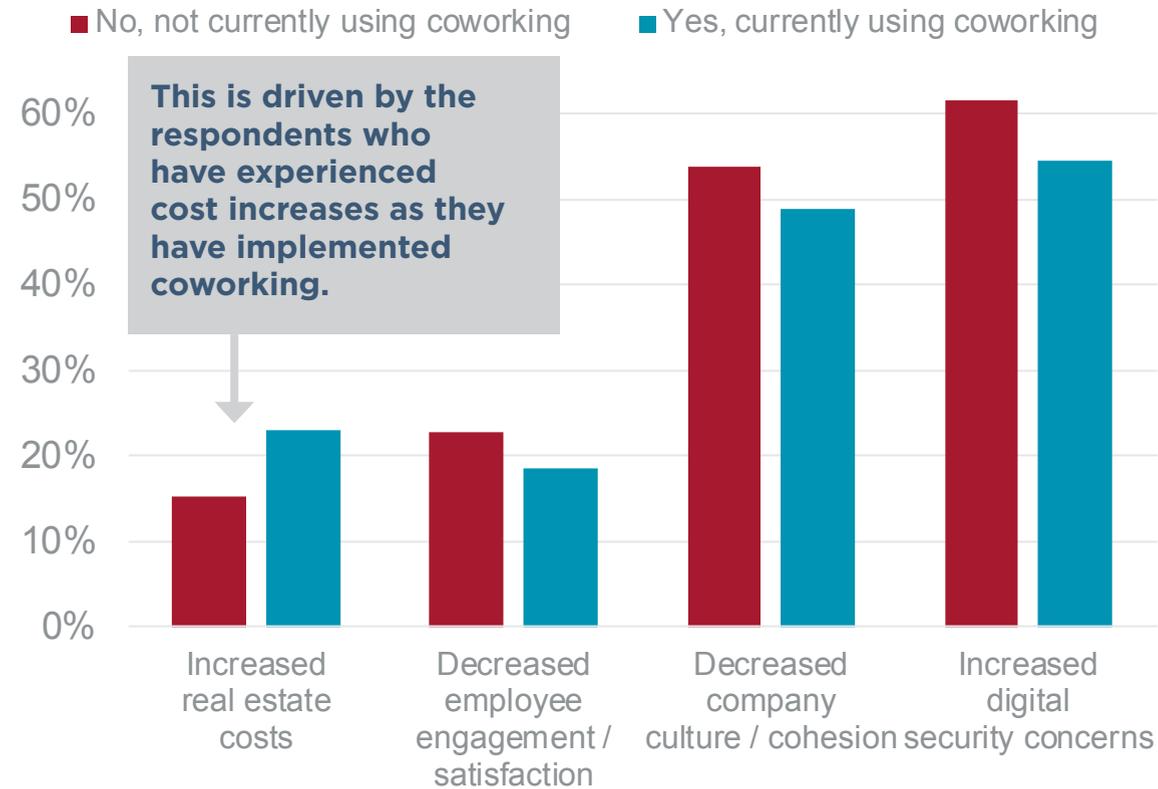
TOP CONCERNS INCLUDE DIGITAL SECURITY, PERSONAL PRIVACY AND COMPANY CULTURE / COHESION.

- The order of perceived downsides is mostly identical across the three regions. However, EMEA respondents are more likely to be concerned with digital security and company culture / cohesion challenges that coworking may bring.
- EMEA respondents are 50% more likely than their Americas counterparts to see increased costs as a downside. This is in line with the finding that EMEA organizations were the least likely to experience cost reductions via coworking.

DOWNSIDES OF COWORKING

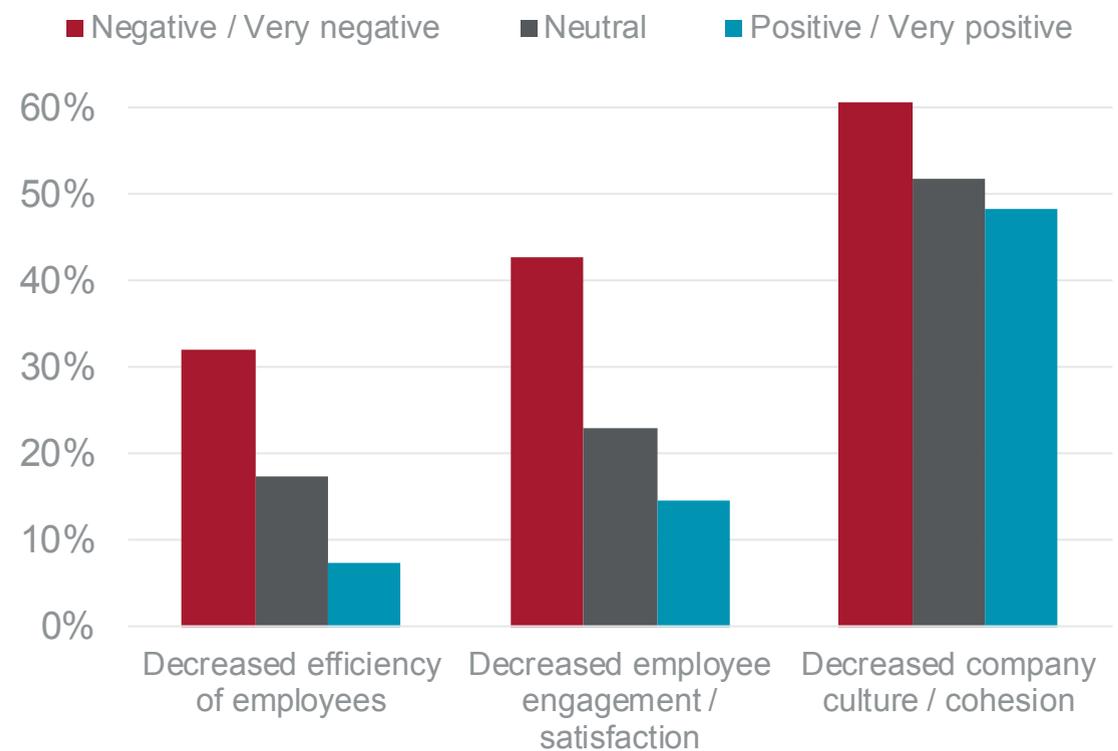
What are the main downsides of implementing coworking as part of a company's real estate portfolio?

Downsides by Current Coworking Usage



ORGANIZATIONS NOT CURRENTLY UTILIZING COWORKING ARE MORE CONCERNED ABOUT EMPLOYEE ENGAGEMENT, COMPANY COHESION AND DIGITAL SECURITY.

Downsides by Overall Perceptions of Coworking



RESPONDENTS WITH NEGATIVE VIEWS OF COWORKING ARE MORE LIKELY TO SEE NEGATIVE IMPACTS ON EMPLOYEE ENGAGEMENT, EFFICIENCY AND COHESION.

The business model of coworking providers is to take on long-term leases with traditional office terms and then sell memberships to that space at marked-up prices, thus creating rent arbitrage. It would logically follow then that occupiers are paying more for coworking than they would for a traditional lease. For example, it is not unheard of for coworking memberships in Washington, DC to reach a 60% per square foot (psf) premium when including all infrastructure and services.

However, the math is more complicated than just a straight-line analysis of psf rents. For starters, the cost structure is not an apples-to-apples comparison because flexible workplace all-inclusive fees bundle offerings that are not included in a traditional full-service lease. The flexible workplace turnkey service agreement pricing accounts for upfront capital expenditures, monthly operating costs, technology, communications, utilities, food and beverage amenities, common spaces, and various elective services (i.e., facilities management, receptionist and/or concierge). The terms also may allow for expansion and regression of employees on a variable basis. The traditional lease typically accounts for rent, utilities and janitorial services and requires prognostication on the number of employees that will be utilizing the space in five, seven or even ten years. When these forecasts are off by some degree, the real estate cost per employee can end up being higher than expected in a traditional lease. Across a portfolio, the loss factor associated with vacating space prior to lease termination can also be significant.

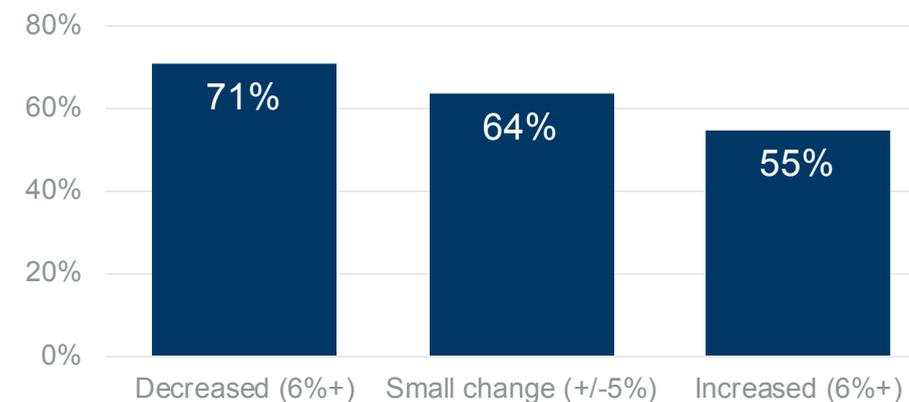
Increased density is another way that total CRE costs are mitigated even as the psf price increases. Traditional office space layouts are often two-to-three times less dense than flexible workplace solutions. While coworking locations often target 100 square feet³ (sf) per member, and certain gateway markets hit 50-60 sf, the average traditional office space density in the United States is 190 sf per employee.⁴ Flexible workplaces fall in between traditional office space and pure, entry-level coworking, with efficient individual workspaces mixed with meeting rooms, focus rooms and some private offices. This leaves substantial room for higher psf prices in coworking and flexible workplace that still can lead to minimal changes or even reductions in overall CRE costs. This is borne out in CRE executives' perspectives as half of them indicate the utilization of coworking has had limited impact (plus or minus 5%) on CRE costs. In fact, coworking is more likely to reduce costs (34% of respondents) than increase them (20%).

³ Cushman & Wakefield Coworking and Flexible Office Report

⁴ Cushman & Wakefield Space Matters Report

Finally, any discussion of cost needs to be examined in light of perceived value to the customer of space-as-a-service. The primary benefit of coworking is the flexibility it provides. It is turnkey and can be utilized to ramp portfolios up and/or down with greater speed. The flexible workplace reduces the time required to access new space, the cost of initial capital expenditures to build out the space and the long-term financial liability of a traditional lease by providing occupiers with instant access to a turnkey, fully-furnished and tech-enabled workplace. Additionally, it serves as another option—along with traditional real estate services outsourcing—for minimizing the burden of staffing and day-to-day execution by maintenance, support, facilities management and concierge personnel. The value of this flexibility, service and space is distinct to each organization and situation based upon corporate objectives and strategic business plans.

How would you rate your organization's general perception of coworking? (% Positive / Very positive)



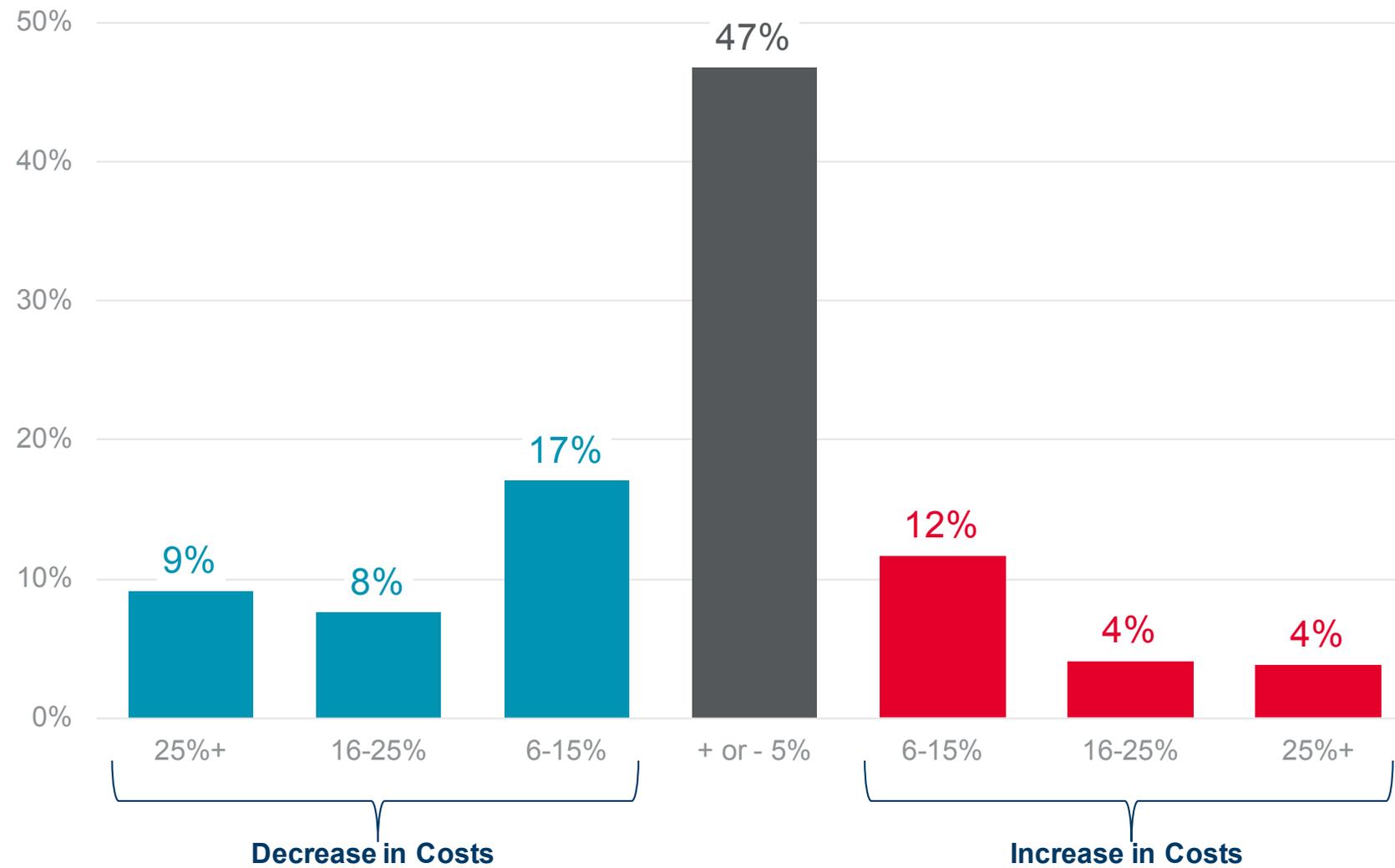
Real Estate Costs*

- Organizations that have been able to lower their CRE spend when utilizing coworking are more likely to have a positive or very positive view of the coworking sector.
- Among those whose costs decreased by 6% or more, 71% have a positive or very positive view of coworking. That drops to 55% among those organizations where CRE costs increased by 6% or more.

*Only includes respondents who indicated that "yes" their organization is currently utilizing coworking somewhere in their portfolio.

IMPACT ON REAL ESTATE COSTS

In locations where your organization has implemented coworking, how have your CRE costs changed?



Real Estate Costs*

NEARLY HALF OF ALL ORGANIZATIONS SEE RELATIVELY MINOR CHANGES IN COSTS WHEN MOVING TO COWORKING.

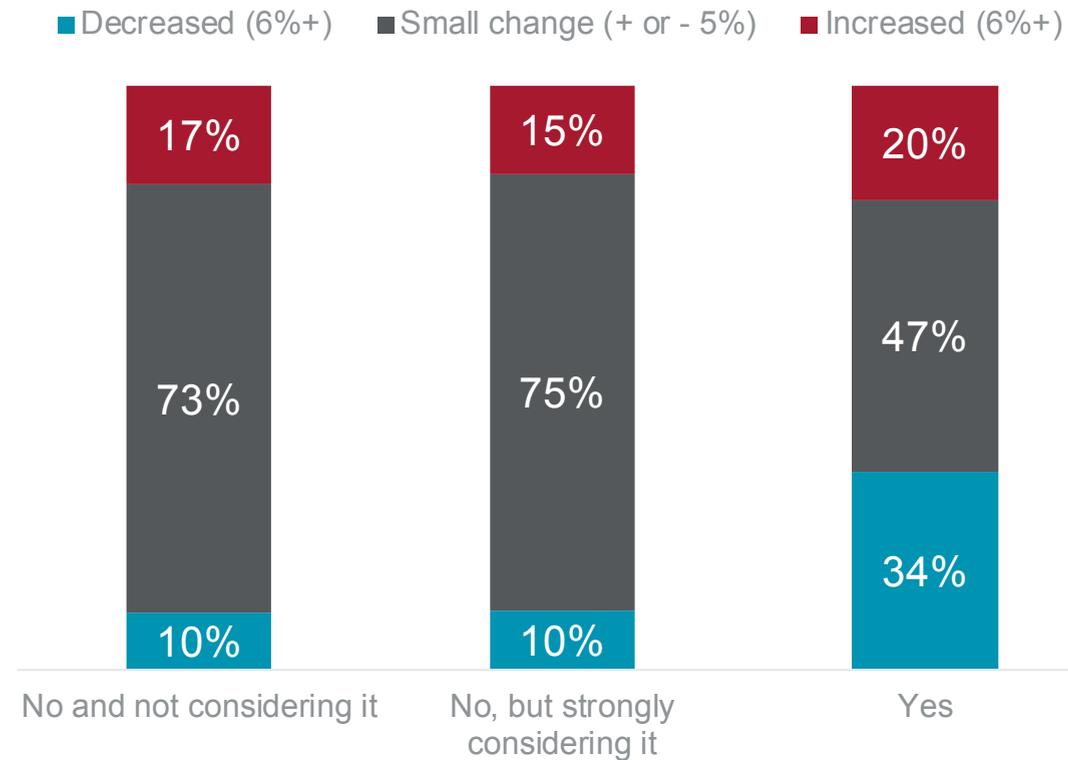
- Implementation of coworking having a small impact on CRE cost is likely due to the balance between higher psf costs mixed with more efficient space usage.
- Globally, a third of organizations cited decreases in costs of 6% or more. This is higher in APAC (37%) and the Americas (36%) than in EMEA (24%).
- APAC respondents were also the most likely to indicate their organization experienced cost increases of 6% or more.

*Only includes respondents who indicated that "yes" their organization is currently utilizing coworking somewhere in their portfolio.

IMPACT ON REAL ESTATE COSTS

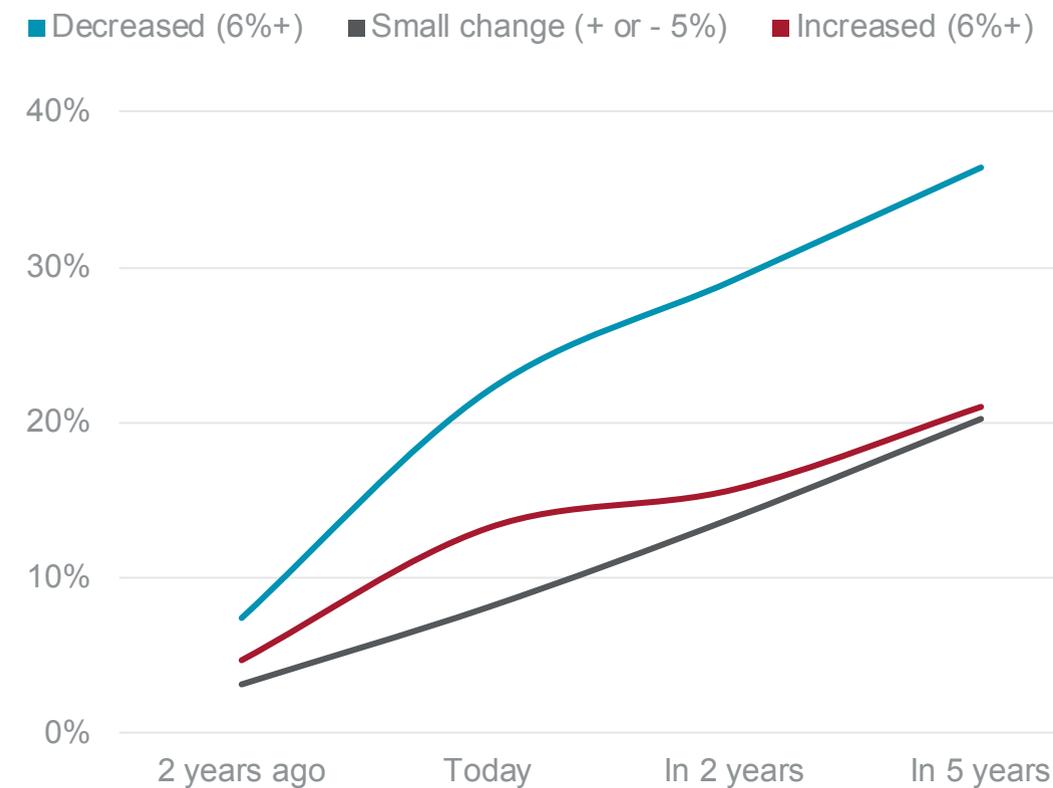
In locations where your organization has implemented coworking, how have your CRE costs changed?

Impact on Cost by Current Coworking Situation



RESPONDENTS WHO DO NOT CURRENTLY HAVE COWORKING LOCATIONS TEND TO PERCEIVE THERE IS LITTLE IMPACT ON REAL ESTATE COSTS.

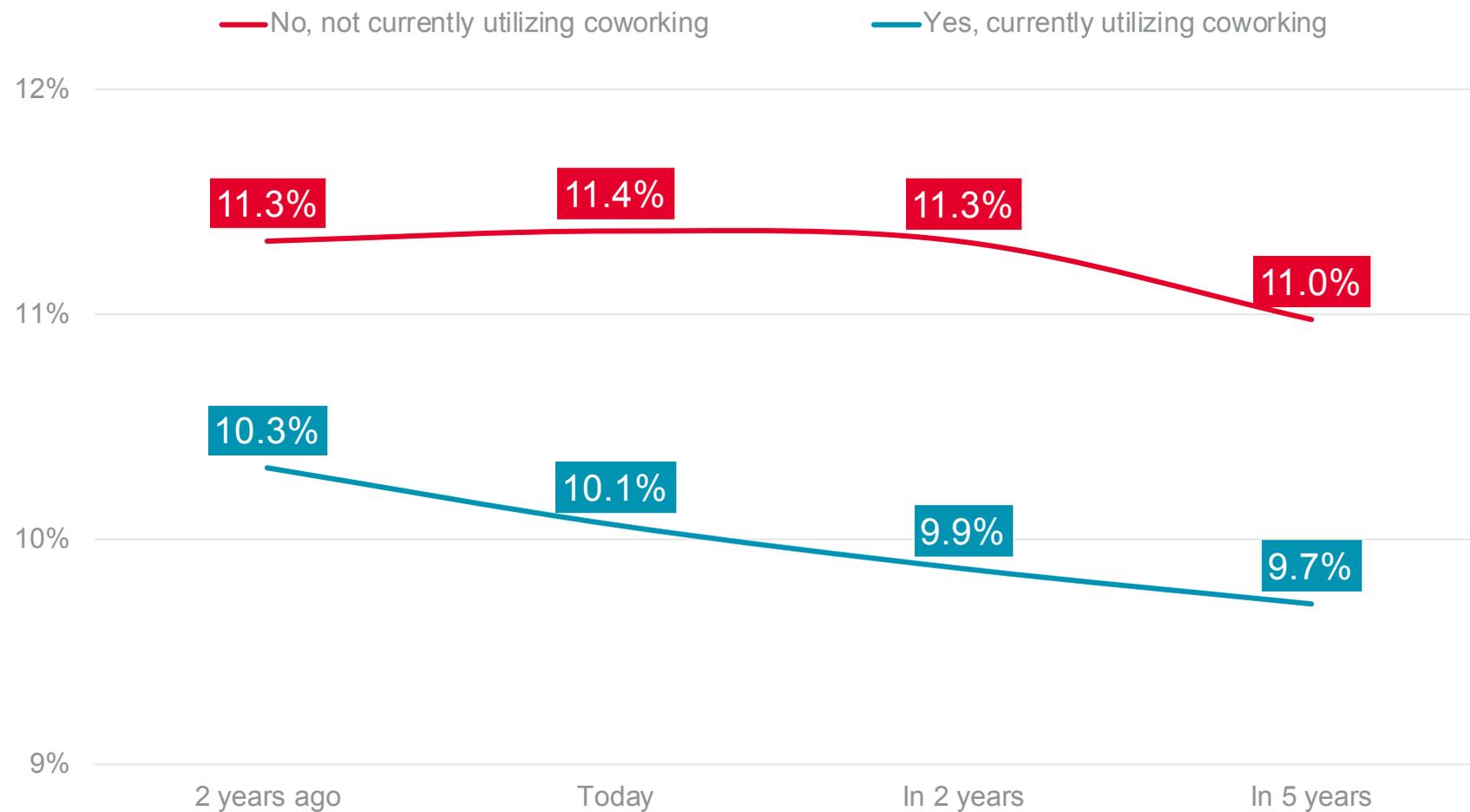
Workforce Utilizing Coworking by Cost Impact



ORGANIZATIONS THAT HAVE SAVED MONEY ARE MORE BULLISH ON FUTURE COWORKING USAGE.

RE COSTS (AVERAGE) BY CURRENT USAGE

Overall, what were/are/will your company's real estate costs as a percentage of revenue in your business?



Average RE Costs*

ON AVERAGE, ORGANIZATIONS CURRENTLY UTILIZING COWORKING ALSO CITE LOWER CRE COSTS (AS A % OF BUSINESS REVENUE).

- Organizations that currently utilize coworking across their portfolio report lower real estate costs (as a percentage of revenue). As of today, the average is 10.1% of business revenue, down from 10.3% two years ago.
- They are also more optimistic for the future, as the expected average drops to 9.7% in five years. This is 126 basis points lower than the 5-year expectation among companies that currently are not utilizing coworking in their portfolios.

*Responses of zero (0%) and above 50% have been excluded from the analysis.

The words “coworking” and “flexible workplace” are often utilized interchangeably, but clarity on what is meant by each is helpful for understanding the different offerings and how occupier clients utilize each of them. Coworking has become an all-encompassing proxy in the press and in industry-speak for highly amenitized space with hip build-outs and hipper food and beverage offerings. In reality, coworking is the entry-level membership to a flexible workplace location that is occupied by users from a variety of companies of differing sizes. These increasingly look like the hip, new spaces most often discussed in the press, but they also include the serviced, shared executive suite model that has been around for over 40 years.

Flexible workplace options has been utilized by organizations of all sizes for decades. However, the new wave of coworking is often discussed as a product offering for freelancers and very small businesses that only recently became an option for enterprise clients. In fact, larger occupiers have and continue to tap into entry-level space-as-a-service coworking in several different manners:⁵

- Temporary space between traditional office moves (either when first opening an office in a new market or as part of an intra-market move).
- Landing spot for remote workers or employees who may need to move around the city depending upon the day (e.g., sales teams).
- Incubator space where specific departments can benefit from networking with workers from outside of their company’s employee base.

While enterprise occupiers are increasingly utilizing coworking, many large corporations are moving towards flexible workplace offerings. These spaces provide the same benefits of coworking—turnkey space, increased flexibility, decreased leased terms—without the sharing of space with employees of other companies. Flexible workplace provides the occupier with more control over the design and branding of the space and typically requires longer commitments than coworking memberships. Coworking is often month-to-month and is also sold as annual memberships with discounts. Flexible workplace

service agreements can be as short as one month, but terms are commonly one to three years in length.

On average, 12% of respondents’ global workforce is currently utilizing coworking on some sort of regular basis. This is predicted to double over the next five years. While much of the usage to-date has been in strictly coworking settings, enterprise-level flexible workplace solutions are likely to account for the majority of this growth. The fastest growth in the next five years is expected from APAC.

What percentage of your global workforce was/is/will be utilizing coworking on a regular basis?



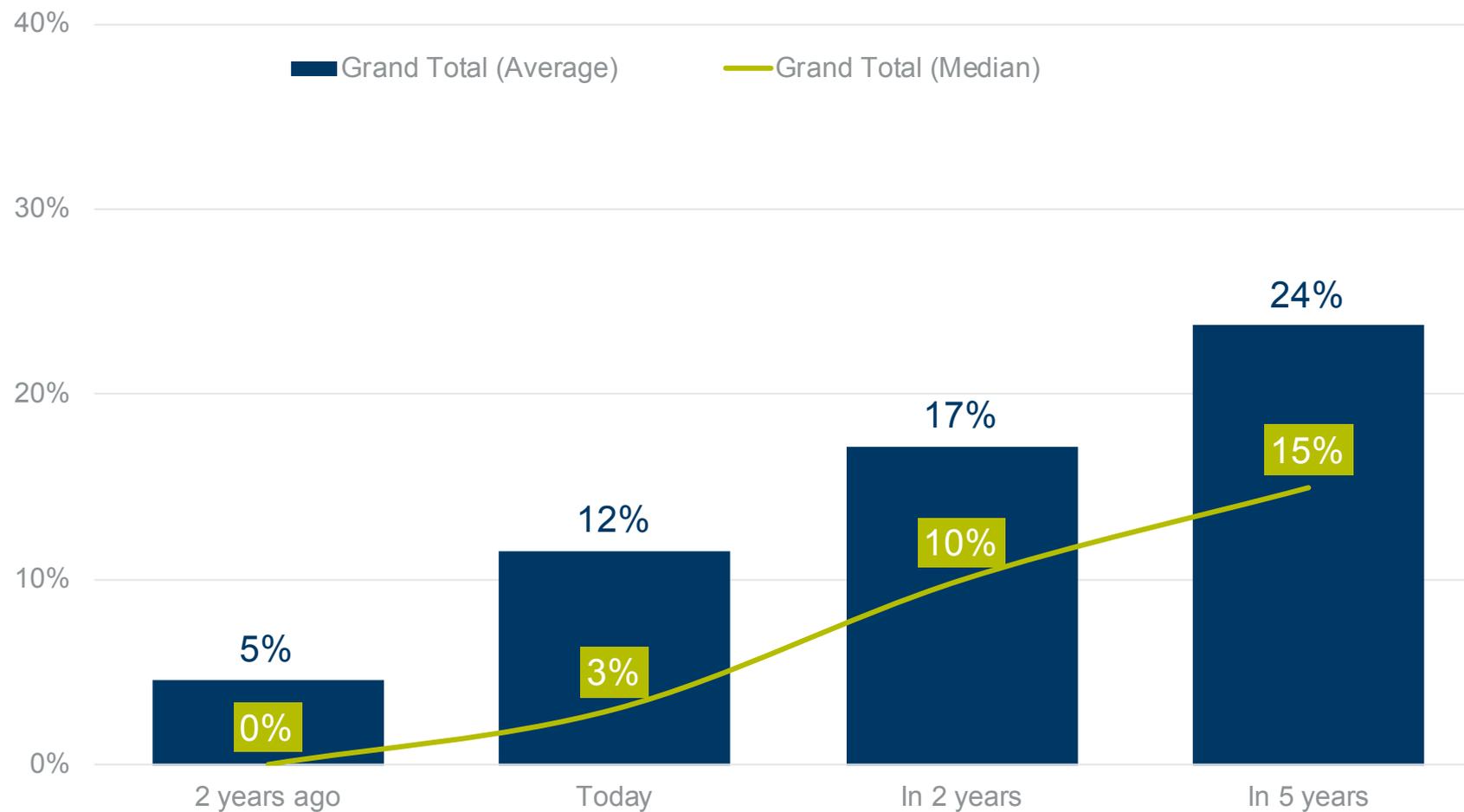
Utilization

- On average, respondents indicate that 12% of their global workforce is utilizing coworking in some capacity. That is up from 5% of workers two years ago. The average is expected to double in the next five years.
- Among companies who have been able to decrease real estate costs via coworking, the percentage has tripled in the past two years (from 7% to 22%) and is expected to surpass one-third five years from now.

⁵ In a role reversal, some occupiers have leased out their excess space to coworking providers to increase income or reduce the CRE lease burden until that space is needed for future employee growth.

WORKFORCE UTILIZING COWORKING

What percentage of your global workforce was/is/will be utilizing coworking on a regular basis?



Utilization

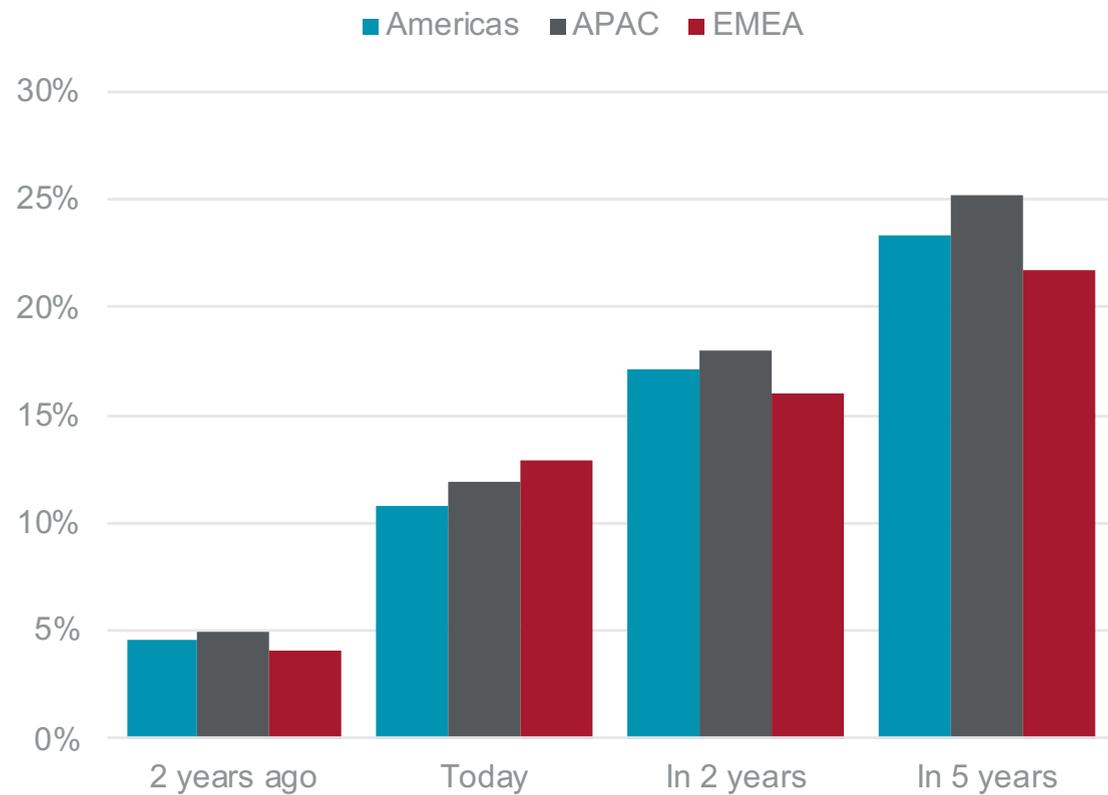
THE MEDIAN UTILIZATION IS SET TO TRIPLE IN THE NEXT TWO YEARS (FROM 3% TO 10%).

- The average percentage of global workers at surveyed organizations utilizing coworking is 12%, but the median company has only 3% of its workforce regularly accessing coworking. The median is predicted to increase five-fold in five years.
- The majority of respondents indicate coworking was utilized by none of their workers two years ago, but today that is true of only 25% of surveyed companies. One-tenth expect to still have none of their workers utilizing coworking in five years.

WORKFORCE UTILIZING COWORKING

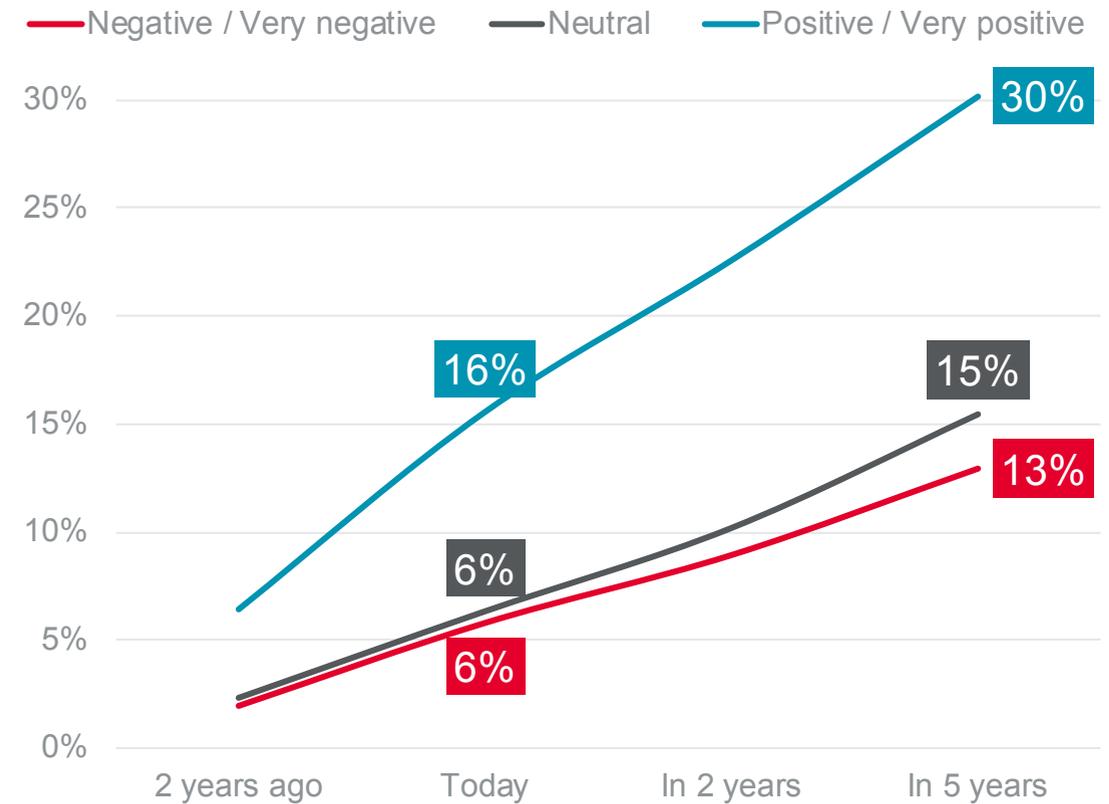
What percentage of your global workforce was/is/will be utilizing coworking on a regular basis?

Workforce Utilizing Coworking



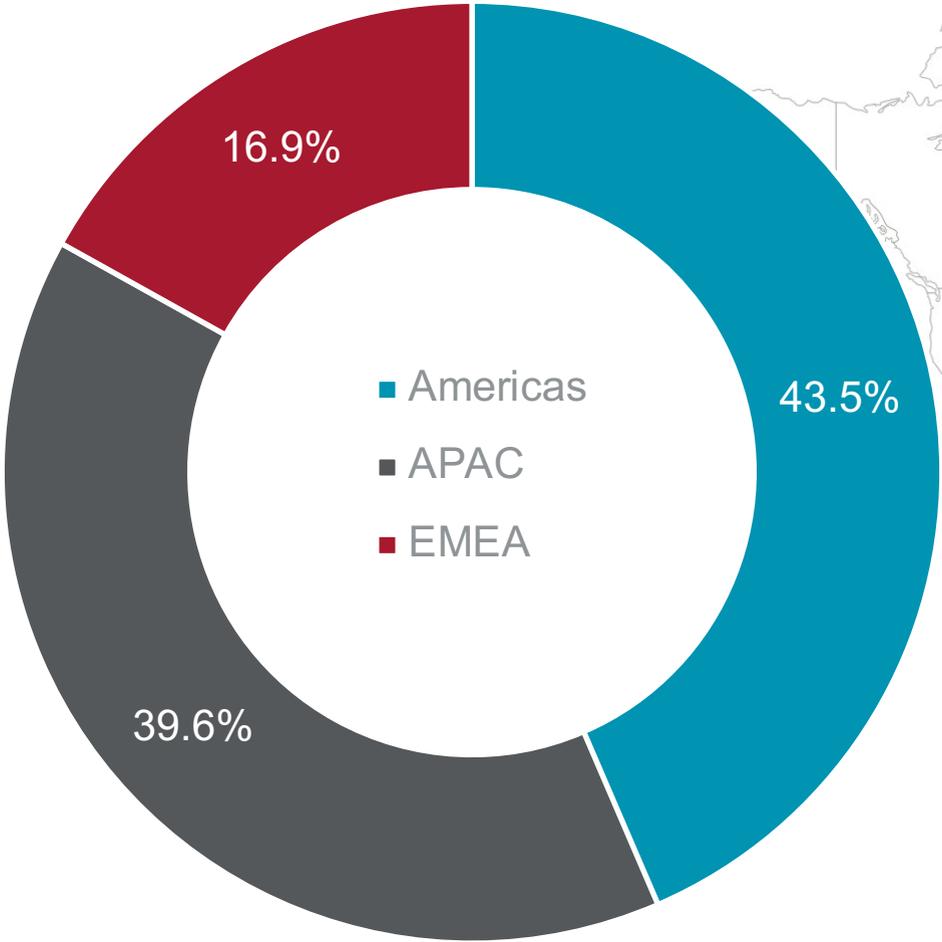
GROWTH IS EXPECTED TO BE FASTEST IN ASIA PACIFIC.

Workforce Utilizing Coworking by Perception



Respondent Count

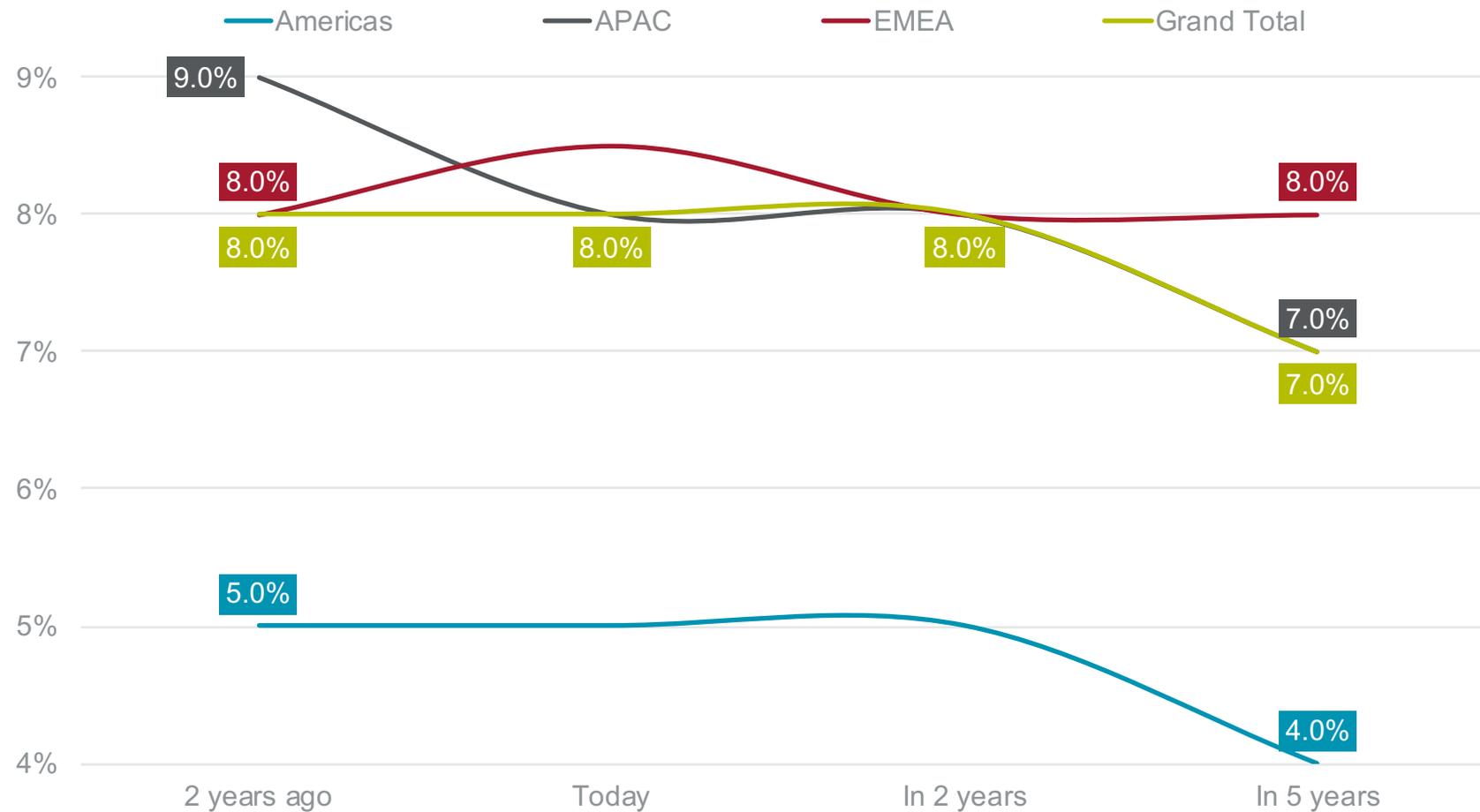
Distribution of respondents to CoreNet Global Summit survey about coworking



579
RESPONSES FROM ATTENDEES AT THREE 2018-2019 CORENET GLOBAL SUMMITS: BOSTON, MADRID AND HONG KONG

APPENDIX

Overall, what were/are/will your company's real estate costs as a percentage of revenue in your business?



Median RE Costs*

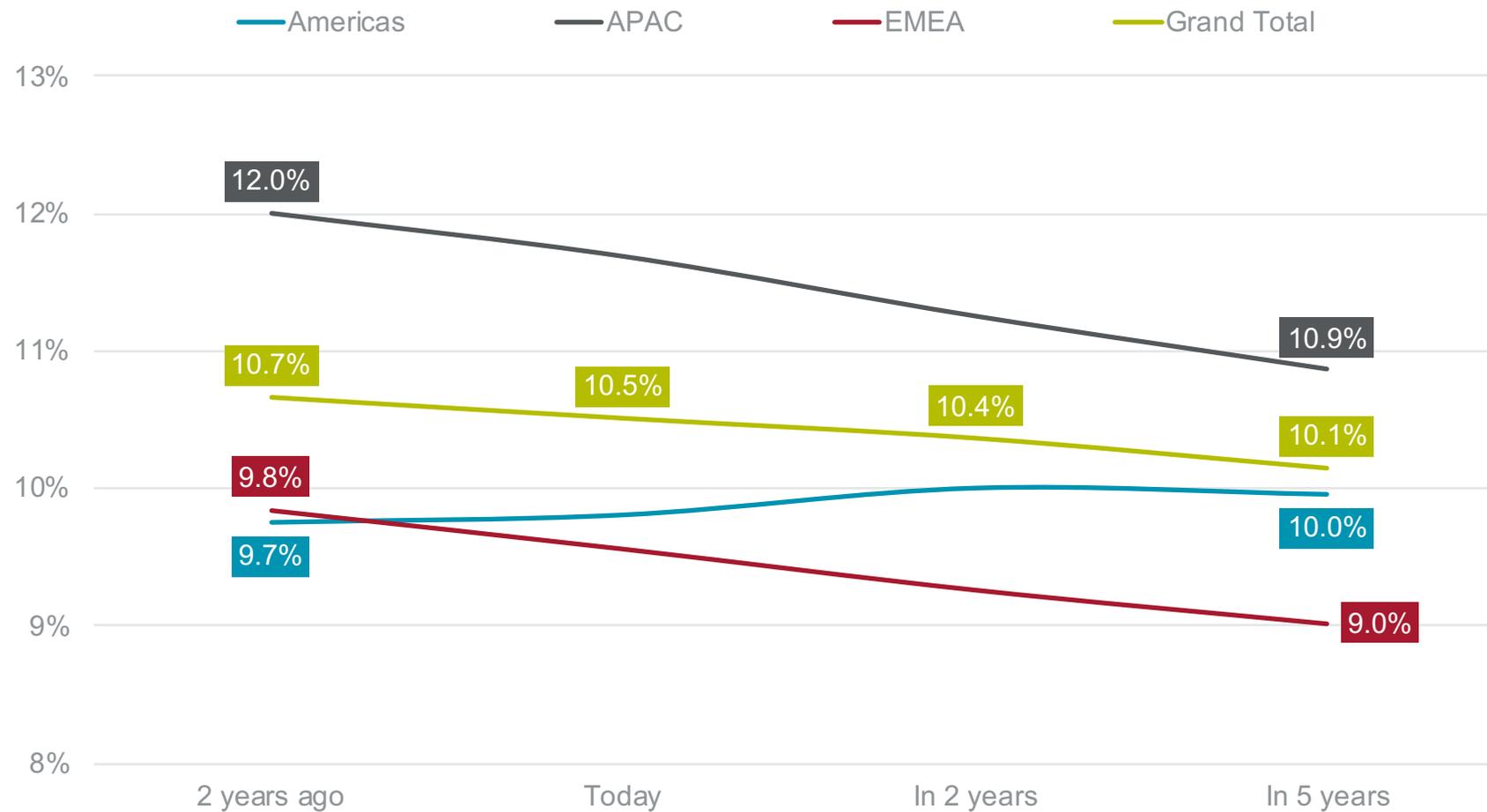
MEDIAN COMPANY'S REAL ESTATE COSTS EXPECTED TO DROP IN FIVE YEARS (AS % OF BUSINESS REVENUE).

- As always, organizations are looking to control and reduce real estate costs. Over the next five years, the median global expectation is to drop real estate costs from 8% of total business revenue down to 7%.
- Real estate costs are expected to go from 8.5% to 8% in EMEA, from 8% to 7% in APAC and from 5% to 4% in the Americas.

*Responses of zero (0%) and above 50% have been excluded from the analysis.

APPENDIX

Overall, what were/are/will your company's real estate costs as a percentage of revenue in your business?



Average RE Costs*

AVERAGE REAL ESTATE COSTS RATIO TO DROP 36 BASIS POINTS OVER NEXT FIVE YEARS (FROM 10.5% TO 10.1%).

- Global survey respondents indicate that real estate costs are expected to drop from 10.5% of total business revenue to 10.1% over the next five years.
- The largest drop is expected in APAC, down 82 basis points from 11.7% to 10.9%. The 5-year decline in EMEA will be 54 basis points.
- The average of organizations in the Americas is expected to go up slightly. However, the median is likely to drop, so the average is being pulled up by some outliers on the high end.

*Responses of zero (0%) and above 50% have been excluded from the analysis.



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