Yardi Matrix

National Office Report

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Flex Space Demand Drives Expansion

- Driven by hybrid work arrangements, a flight-to-quality among occupiers and a desire to avoid long-term leases, demand for flexible office space is rapidly increasing.

- An analysis of surveys from major brokerages indicates that demand for flexible office space will continue to grow in coming years. JLL's Future of Work Survey of more than 1,000 corporate real estate decision-makers found that 43% of firms plan to increase investment in flex space through 2025. CBRE's Occupier Sentiment Survey showed while only 17% of U.S. occupiers report that flex space is a significant portion of their real estate portfolios today, 59% said that it will be significant within the next two years. It's not only C-suite decision-makers driving demand, however, but workers as well. A joint WeWork and Cushman & Wakefield survey found that people in WeWork offices currently spend 40% of their work time in the flex space but want to increase that to 55% in the future.

- Commercial real estate brokerages are taking notice and increasing their investments in coworking. After investing more than $200 million in Industrious in 2021, CBRE put an additional $100 million into the flex space operator this year. Cushman & Wakefield entered a strategic partnership with WeWork, investing $150 million and combining the coworking firm's hospitality technology with the brokerage's asset and facilities management services. JLL is operating coworking spaces under the brand Flex by JLL and will be developing a ground-up, 15,407-square-foot coworking space in Secaucus, N.J. Meanwhile, established industry participants are also increasing their footprints. Over the summer, IWG, the parent company of both Regus and Spaces, announced it would be adding at least 500 U.S. locations with a focus on smaller cities and the suburbs. Between its two brands, IWG already has upward of 1,000 coworking locations in markets covered by Yardi Matrix. WeWork, the second-largest operator, has more than 250 spaces.

- The shift to hybrid work is also leading owners to consider operating their own coworking spaces in an effort to restore occupancy and cash flow. Boston Properties has rolled out FLEX by BXP in a handful of its buildings and Irvine Company offers Flex Workspace+. However, smaller landlords may be wary of the large capital expenses that come with building out high-quality flex space and may look to dedicated operators instead. Management agreements which allow owners and flex space operators to share revenue could become a common solution.