Shared Space: Coworking's Rapid Growth Set to Be Tested

Yardi® Matrix

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- Although headlines about the coworking industry this year have been dominated by the ongoing travails of The We Company (WeWork), the industry is growing rapidly. The top 50 office markets contained a total of 93.2 million square feet of coworking space as of September, or 1.7% of total office space, according to a study of Yardi Matrix's office database.

- Two prior Matrix studies (of 20 markets) show the footprint has grown 40% from 2018 and 100% from 2017. Those markets had 57.5 million square feet of coworking leases as of October 2019, up from 40.4 million square feet in the fourth quarter of 2018 and 26.9 million square feet in the fourth quarter of 2017.

- Coworking has accounted for one-third of office leases in the U.S. over the last 18 months, according to the 2019 Colliers report *"U.S. Flexible Workspace and Coworking."*

- Coworking remains a large-market phenomenon. The top six traditional primary commercial real estate markets—New York; Los Angeles; Washington, D.C.; Chicago; Boston; and San Francisco—account for 44.1 million square feet of coworking leases, or 47% of total space.

- The industry is evolving, with new business models emerging, such as property owners creating their own shared space studios. Yardi Matrix has identified more than 1,500 coworking properties outside of traditional office buildings, roughly 30% of the total facility count in our database.

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- The penetration of coworking is highest in markets with new-market economies and tight vacancy rates. Metros with the most coworking space as a share of stock are Brooklyn (3.9%), Manhattan (3.7%), Miami (3.5%), San Francisco and Los Angeles (each 2.6%) and Seattle (2.5%).

- As has been the case for years, the roster of coworking providers is dominated by WeWork and Regus, which account for 44.5 million square feet of leases. Only eight coworking companies lease as much as 1 million square feet of space.

- Yardi's study is based on a review of the leases of 5.5 billion square feet of office space in the top 50 markets in the U.S. The study covers buildings with 50,000 square feet or more in some metros and 25,000 square feet or more in others.

Steady Growth Industry

Shared office space isn't a new concept, but it has grown substantially in the current economic cycle. The number of independent workers has mushroomed, and leasing flexibility is increasingly being embraced by large corporations. Coworking is expanding especially rapidly within large markets such as Manhattan and Los Angeles, but it is also gaining steam in the suburbs.

Yet most of the current discussion surrounding the segment revolves around the troubles of its largest player, The We Company (WeWork), which drives the impression that the entire business model is at risk. WeWork's travails aside, most signs point to coworking as a growth industry that remains in the early stages of development.

Coworking has grown by an order of magnitude over the past few years. A study of the largest 50 markets in Yardi Matrix's database found 3,500 coworking leases totaling 93.2 million square feet of space, which represents 1.7% of all office space. Two prior studies (of 20 markets) by Matrix found 57.5 million square feet of coworking leases as of October 2019, up from 40.4 million square feet in fourth quarter 2018 and 26.9 million square feet in fourth quarter 2017. Coworking in those 20 metros grew more than 40% year-over-year and 100% over two years.

Largely due to WeWork, Manhattan led metros in year-over-year growth, adding 4.1 million square feet of coworking space (up 31.1%). Other metros with substantial growth since fourth quarter 2018 include Los Angeles (an additional 2.7 million square feet, up 62.4%), San Francisco (1.2 million square feet, up 46.2%), Dallas (1.2 million square feet, up 49.3%), Atlanta (1.1 million square feet, up 52.8%), Miami (1.1 million square feet, up 98.1%) and Seattle (1.0 million square feet, up 43.6%).

Coworking's growth comes from a confluence of trends in the office market, such as:

- The rise of the gig economy, which has increased the number of independent workers who want a place to work away from home.

- Employment growth in the technology industry, which has a proliferation of startup firms and independent contractors that rent small blocks of space.

Shared Space by Metro

Market	# Locations	Total Sq. Ft.
Manhattan	503	17,327,919
Los Angeles	255	7,018,537
Washington DC	219	5,836,672
Chicago	179	5,305,279
Boston	152	4,658,676
San Francisco	143	3,916,279
Dallas–Fort Worth	159	3,509,741
Seattle	83	3,320,114
Atlanta	125	3,047,628
Philadelphia	75	2,958,544
Denver	113	2,776,697
Bay Area–South Bay	86	2,713,917
Miami	109	2,283,469
Houston	113	2,230,464
Orange County	82	2,096,516
Phoenix	78	1,455,005
New Jersey	79	1,363,993
San Diego	74	1,332,905
Brooklyn	46	1,296,018
Urban Twin Cities	46	1,290,231
Salt Lake City	29	1,263,536
Austin	47	1,213,568
Nashville	31	1,076,200
Pittsburgh	28	929,577
Carolina Triangle	32	883,411
Ft Lauderdale	47	779,324
Charlotte	37	744,483
Portland	37	730,245
Baltimore	37	724,611
Orlando	40	705,848
Tampa–St Petersburg	32	677,342
Sacramento	29	664,570
Kansas City	19	658,330
West Palm Beach	40	598,710
Las Vegas	32	598,337
Top 50 Markets	3,487	93,180,194

Source: Yardi® Matrix

Top Markets by % Coworking

Market	% Coworking
Brooklyn	3.9%
Manhattan	3.7%
Miami	3.5%
San Francisco	2.6%
Los Angeles	2.6%
Seattle	2.5%
Salt Lake City	2.1%
Nashville	2.1%
Boston	2.0%
Orange County	1.9%
Ft Lauderdale	1.9%
West Palm Beach	1.9%
Denver	1.8%
Chicago	1.8%
Austin	1.7%
Philadelphia	1.7%
Las Vegas	1.7%
Atlanta	1.6%
Queens	1.6%
Washington DC	1.6%
San Diego	1.5%
Carolina Triangle	1.5%
Pittsburgh	1.4%
Central Valley	1.4%
Bay Area–South Bay	1.4%
Orlando	1.3%
Dallas–Fort Worth	1.3%
Portland	1.3%
Columbus	1.2%
Phoenix	1.2%
Kansas City	1.2%
Urban Twin Cities	1.2%
Sacramento	1.2%
Tampa–St Petersburg	1.1%
Charlotte	1.1%
Top 50 Markets	1.7%

Source: Yardi® Matrix

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- The desire of corporations to have more flexible lease arrangements. Many companies need space for remote offices, or they are willing to pay for the flexibility of shorter-term leases.

- Worker preferences for office buildings with more amenities and social elements such as game rooms and kitchens.

Urban Phenomenon, Suburban Potential

Coworking space has developed more quickly in urban areas than in the suburbs. Our study found 63.3 million square feet in urban submarkets, representing 2.7% of total stock, while suburban submarkets had 30.4 million square feet, or 1.0% of total suburban office stock. Urban areas have advantages over suburbs in several regards: Downtowns have a proximity to a greater number of workers and access to public transportation, and technology companies and workers tend to congregate in urban areas. What's more, suburban markets have a greater supply of small office spaces.

As a result, the top six metros for coworking space also represent the generally recognized core, or primary, commercial real estate markets: Manhattan (17.3 million square feet); Los Angeles (7.0 million); Washington, D.C. (5.8 million); Chicago (5.3 million); Boston (4.7 million); and San Francisco (3.9 million). Those metros also rank among the highest for coworking as a percentage of stock. That metric is led by New York City (Brooklyn 3.9% and Manhattan 3.7%), followed by Miami (3.5%), Los Angeles and San Francisco (2.6%) and Seattle (2.5%).

Coworking thrives in cities with large technology sectors, as tech startups and tech freelancers are among the most active users of coworking. Other markets that have an above-average concentration of coworking and a large knowledge-based workforce include Salt Lake City and Nashville (2.1%) and Boston (2.0%).

Another positive factor for coworking is low vacancy rates. In our three surveys to date, there has been a strong correlation between markets with low vacancy rates and high percentages of coworking as a share of stock. Manhattan, San Francisco, Seattle and Boston—among the leaders in coworking as a percentage of stock—all have office vacancy rates below 10.0%, well below the 13.5% national average. Meanwhile, metros such as Houston, Dallas and New Jersey—which have vacancy rates of at least 18.5%—have a much smaller percentage of coworking space.

As the industry matures, we expect that coworking will rise in suburban office markets. The largest coworking providers have focused on cities, but providers such as Office Evolution, Intelligent Office and Boxer Workstyle—which average between 7,000 and 13,000 square feet per location—are sprouting up rapidly. Suburban spaces tend to draw clients from the ranks of people who work from home and want an office to have somewhere to go and/or for socialization, as well as large corporations that need small satellite offices.

It makes sense that coworking thrives in metros where vacant space is hard to find and expensive, and conversely is less in demand in areas where space is plentiful and cheaper. However, the industry is new and developing, so it would be a mistake to draw firm conclusions.

Coworking Suburban

Market	% Coworking	Sq. Ft.
Las Vegas	2.1%	451,660
West Palm Beach	2.0%	572,787
Orange County	1.9%	2,096,516
Miami	1.9%	755,352
Los Angeles	1.8%	1,752,290
Philadelphia	1.8%	1,849,057
Ft Lauderdale	1.8%	639,119
Lafayette	1.8%	26,140
Milwaukee	1.7%	338,611
Salt Lake City	1.6%	639,629
San Diego	1.3%	1,018,941
Seattle	1.3%	704,753
San Francisco	1.2%	684,454
Dallas–Fort Worth	1.2%	2,143,448
Bay Area–South Bay	1.1%	1,813,457
Phoenix	1.0%	841,040
Atlanta	1.0%	1,278,332
White Plains	1.0%	304,947
Central Valley	1.0%	180,479
Houston	1.0%	1,200,229
Orlando	1.0%	407,762
Washington DC	0.9%	1,971,234
Nashville	0.9%	313,640
Charlotte	0.9%	369,844
St Louis	0.9%	351,630
New Jersey	0.8%	1,221,391
Oklahoma City	0.8%	131,926
Sacramento	0.8%	359,711
Louisville	0.8%	119,084
Urban Twin Cities	0.8%	518,779
Austin	0.8%	404,073
Tampa	0.7%	256,335
Indianapolis	0.7%	210,463
Kansas City	0.7%	286,067
Denver	0.7%	750,681
Top 50 Markets	1.0%	30,442,039

Source: Yardi® Matrix

Coworking Urban

Market	% Coworking	Sq. Ft.
Carolina Triangle	6.5%	526,541
Miami	5.8%	1,557,592
Austin	5.0%	801,659
Nashville	4.9%	753,878
Denver	4.2%	2,044,867
Boston	4.0%	3,942,450
Brooklyn	3.9%	1,296,018
Manhattan	3.7%	17,327,919
San Francisco	3.6%	3,300,743
Seattle	3.5%	2,716,294
Orlando	3.2%	320,645
Salt Lake City	3.1%	549,858
Ft Lauderdale	3.1%	177,656
Atlanta	3.0%	1,773,165
Los Angeles	2.9%	5,245,634
Chicago	2.8%	4,565,876
Bay Area–South Bay	2.6%	904,376
San Diego	2.5%	318,122
Sacramento	2.4%	325,307
Washington DC	2.4%	3,856,214
Pittsburgh	2.3%	800,866
Kansas City	2.3%	350,203
Columbus	2.2%	364,108
Portland	1.9%	581,673
Tampa	1.9%	478,008
Philadelphia	1.9%	1,293,121
Baltimore	1.9%	447,905
Urban Twin Cities	1.8%	775,858
Dallas–Fort Worth	1.7%	1,366,350
Central Valley	1.7%	82,318
Charlotte	1.7%	392,958
San Antonio	1.6%	178,756
Queens	1.6%	318,736
Phoenix	1.5%	614,552
St Louis	1.4%	171,513
Top 50 Markets	2.7%	63,259,568

Source: Yardi® Matrix

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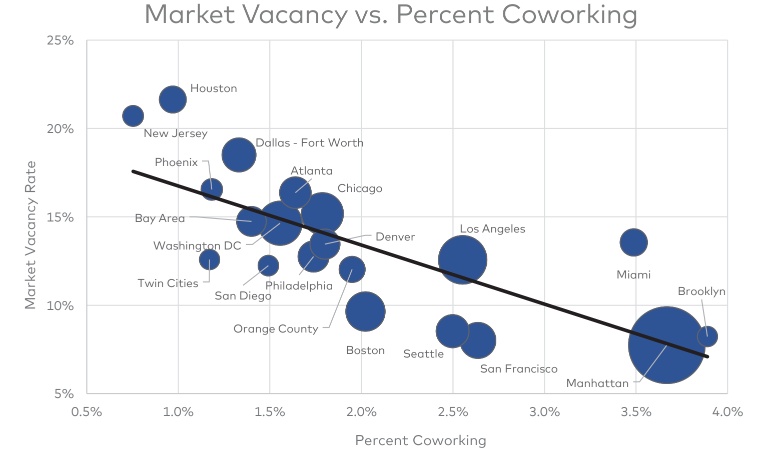
Roster of Providers Still Small



Source: Yardi® Matrix

Coworking remains dominated by its two largest players, WeWork and Regus, which account for 44.5 million square feet, or 48% of the top 50 metros. Between fourth quarter 2018 and October 2019, WeWork increased its space in the top 20 markets by 11.5 million square feet, or 71.2%. Overall, WeWork's current portfolio in the top 50 markets is 27.6 million square feet. Other big gainers over the last year include Spaces, which increased its portfolio to 4.2 million square feet, and Knotel, which increased to 2.7 million square feet. Regus' growth was relatively modest; it added 580,000 square feet year-over-year, up 3.7%. (Regus and Spaces are among the brands owned by IWG Co.)

WeWork has become a trouble spot, not just for itself but for the industry. The firm developed a publicity machine that matched the industry persona: hip, modern and tech-oriented. However, WeWork's attempt to go public revealed cracks in its finances. The initial public offering was canceled after the prospectus detailed huge losses with little prospect of becoming profitable soon. Founder & CEO Adam Neumann was forced to resign and control of the company is being assumed by its major sponsor, SoftBank of Japan.

The issues raised by WeWork's precipitous fall go beyond whether the player representing 28% of the industry will survive. WeWork will find it difficult to lease more space now, but the larger question is whether property owners will reject leasing to other coworking firms, as well. All indications are that office owners will give extra scrutiny to coworking leases, while large corporate users—which represent a growing share of the coworking market—are likely to think twice before getting involved in a situation that might create legal entanglements. In other words, segments of the industry may be in the penalty box until it can demonstrate that the model works.

By the same token, WeWork's finances do not negate the reason that coworking thrived in the first place. Corporations that want more flexible balance sheets will still benefit from shorter-term leases. And it does not change the fact that corporations and small users alike increasingly demand space with the type of amenities that attract workers and flexible lease arrangements.

Evolving Business Models

Even before WeWork ran into trouble, the industry was evolving from its original model—which involved leasing a block of space for the long term and then re-leasing it for short terms to multiple users at higher prices. While such a model can work if executed properly, there were

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concerns that in a downturn income would drop precipitously, leaving the owner with high long-term expenses and little income. That led competitors to develop a partnership model in which landlords with large blocks of vacant space team up with coworking companies. The coworking firm builds out the space and uses its marketing capabilities to attract users, with rent proceeds split with the landlord.

Many large office space owners are trying to figure out how to make such a model work. Office leasing and management companies such as CBRE's Hana are trying to take advantage of longstanding relationships with tenants and property owners. A twist on the model is a strategy used by companies such as Boxer Workstyle, which only sets up coworking operations in buildings that it owns or manages.

Coworking is also growing outside traditional office buildings. Shared and flexible spaces are popping up in properties such as multifamily, malls, college campuses and hotels. New apartment buildings are adding coworking space as an amenity to attract tenants looking for short commutes, while malls are introducing coworking facilities to tap into the heavy foot traffic common in Class A retail. Even airports are incorporating coworking for commuters with long layovers. Standing-desk company Veridesk has installed a free coworking center with meeting rooms at Dallas/Fort Worth International Airport, for instance. Yardi Matrix has identified more than 1,500 coworking properties outside of traditional office buildings, roughly 30% of the total facility count in our database.

The future of workspace will reward flexibility and design that helps employers attract workers in the knowledge economy. That would seem to guarantee a healthy future for coworking, although how the business accommodates those demands is likely to keep evolving in coming years.

—***Paul Fiorilla***, *Director of Research*

Shared Space by Top Operators

Operator	# Locations	Total Sq. Ft.
WeWork	390	27,589,213
Regus	868	16,869,347
Spaces	105	4,249,072
Knotel	133	2,683,338
Industrious	83	2,218,248
Novel Coworking	30	1,901,428
Premier Workspaces	88	1,649,854
Convene	28	1,278,863
Serendipity Labs	32	825,148
CIC	10	819,165

Source: Yardi® Matrix

Largest Average Space

Tenant	Avg Sq. Ft.
CIC	81,917
WeWork	70,742
Novel Coworking	63,381
Convene	45,674
Spaces	40,467
MakeOffices	40,252
BOND Collective	34,128
Yeager Office Suites	32,611
The Yard	27,266
Stark Office Suites	27,100

Source: Yardi® Matrix