



JUNE 2016 NYC NewTrends

WeLease:

The Growth of Shared Workspace and Its Impact on the New York City Market

The growth of coworking is astounding. This real estate niche is changing the way people work and how new companies grow. The number of locations citywide, their total occupancy and the number of new providers have increased by multiples in just six years. This rapid expansion has led to lively debates about the future of coworking in New York City.

767%



Growth in square footage occupied since 2009



Coworking as a percentage of Manhattan's total inventory

180



Locations in New York City, up 86% since 2009

6,258%

Increase in WeWork's New York City portfolio since opening their first location

44

New NYC providers since 2009 for a total of 53 today

90,560 Square Feet

Average size of WeWork's new locations in 2016, up 186% since 2010-2011





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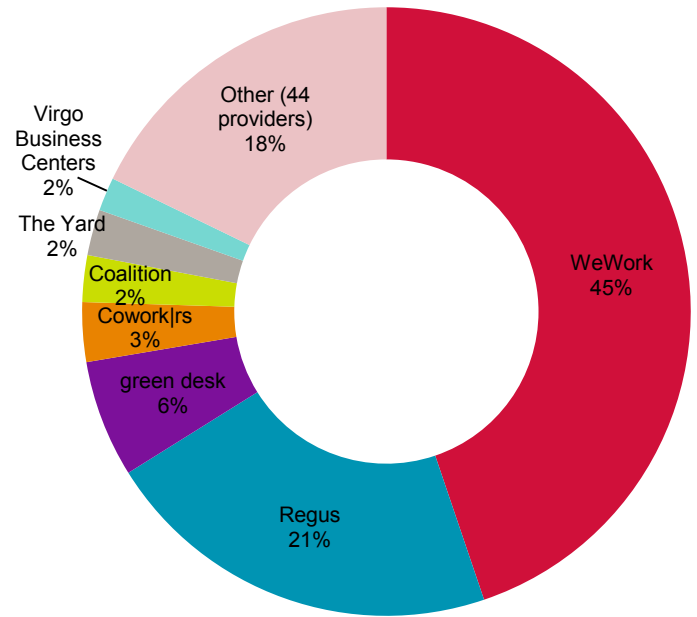
The Boom Years of Coworking and Shared Workspace

Demand for coworking space has been fueled by citywide growth of freelance workers and small businesses—firms with fewer than 20 employees. According to data from the U.S. Census Bureau, employment in this segment of the labor market has grown by 70,999 jobs since 2010, far outpacing the prior market cycle (2002 to 2008), when this segment grew by just 12,255 jobs.

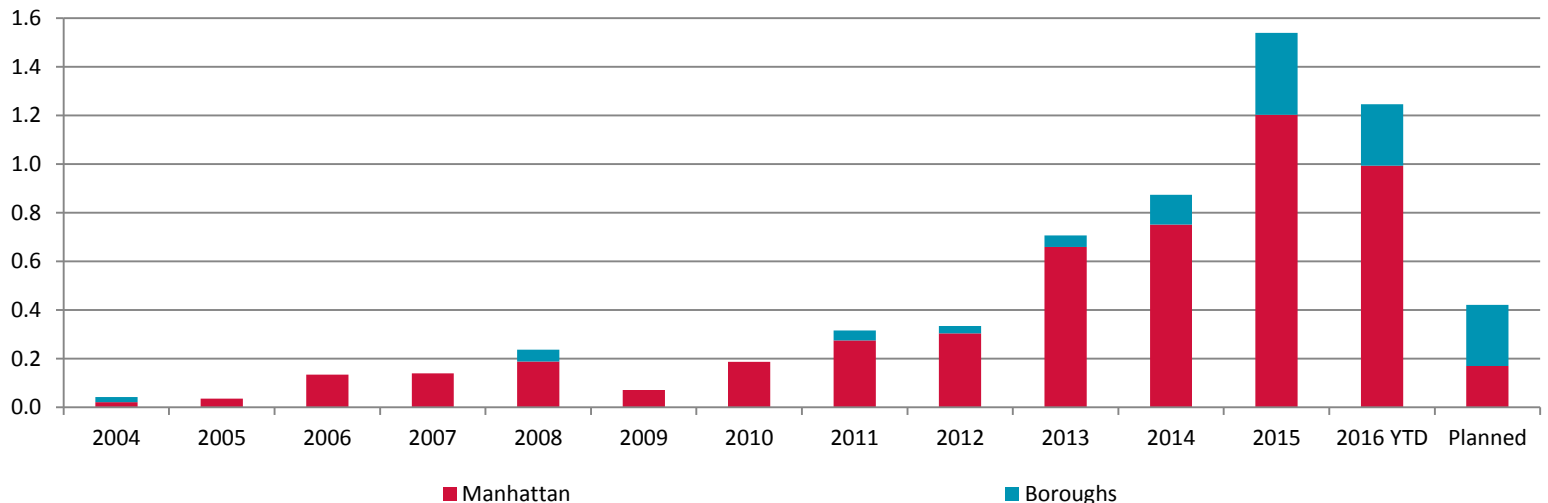
In 2009, there were an estimated 25 coworking locations totaling 698,501 square feet. Today, there are about 180 locations totaling 6 million square feet across Manhattan, Brooklyn and Long Island City. That represents growth of almost nine times the amount of square footage. Eleven additional locations are planned, which would add more than 400,000 square feet.

As coworking has exploded in New York City, new players have entered the market. At least 44 providers opened spaces between 2009 and 2016, bringing the total to 53. Many of these new providers gear their locations toward freelancers and small businesses with no focus on industry, while others aim to create a collaborative environment for a specific niche like tech start-ups, writers, or social entrepreneurs. Office design, amenities and events are curated to fit the intended audience. One new provider rose to be an international company valued at over \$16 billion in just 6 years.

Market Share of Providers



Leasing by Coworking Companies (MSF)





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WeWork opened its first location in 2010—a 42,604 square-foot space at 349 Fifth Avenue—and expanded its portfolio to 32 locations encompassing 2,709,006 square feet across Manhattan, Brooklyn, and Long Island City. This amounts to a 6,258% increase in total square footage in just six years. WeWork has more than 200,000 square feet in the pipeline, including Dock 72 in the Brooklyn Navy Yard.

WeWork has also fueled growth in the average size of locations. In 2016, the provider’s new locations averaged 90,560 square feet, up 204% since 2010-2011. All other providers, including those new to New York since 2010, have consistently opened spaces around 20,000 square feet per new location.

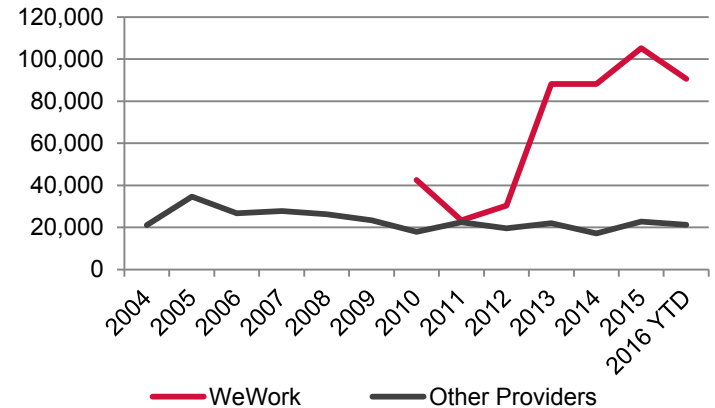
The Impact of Coworking on the Real Estate Market

Coworking companies have helped to solidify the new standards for workplace design among tech and creative companies, particularly fit-outs to maximize density and encourage collaboration. Communal desks and other shared workspace features allow many coworking spaces to function at a very high density. WeWork, for example, operates at about 100 square feet per person or less. Meanwhile, amenities including kitchens, break-out rooms, game rooms, smart phone apps and cloud connections foster casual encounters that may spark collaboration between different businesses.

Top 20 Providers by Total Occupancy, 2016

Rank	Provider	Total SF
1	WeWork	2,931,006
2	Regus	1,445,649
3	green desk	422,388
4	Cowork rs	214,493
5	Coalition	167,999
6	Virgo Business Centers	165,572
7	The Yard	120,660
8	Milk Studios	120,000
9	Work Better	96,441
10	Tech Space	90,041

Average Size of New Locations (SF/Location)



Growth by Market

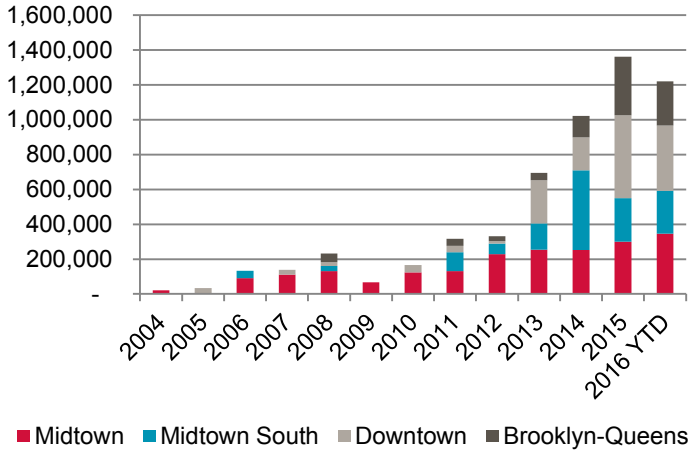
Before the boom years of coworking, shared workspace was largely a Midtown phenomenon comprised primarily of executive suite providers. Locations designed for creative tenants were in short supply. Coming out of the 2009-2010 recession, when growth in New York City’s employment was driven by TAMI industries and small businesses, Midtown South saw a steady uptick in leasing from coworking providers, particularly from

Rank	Provider	Total SF
11	Silver Suites	87,019
12	Knotel	75,000
13	Servcorp	64,461
14	NeueHouse	58,732
15	Alley NYC	53,654
16	Grind	47,386
17	Industrious	40,000
18	Pencil Works	37,900
19	BKLYN Commons	36,000
20	TKO Suites	28,000



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Leasing by Market (SF)



2011 to 2014. As availability in Midtown South tightened, new and expanding providers moved into Downtown, Midtown, Brooklyn, and Long Island City.

Today, Downtown East has the greatest share of the city's coworking space (16.5%), with Brooklyn a close second (15.7%). The five submarkets with the greatest share of coworking represent Midtown, Midtown South, Downtown, and Brooklyn, showing how broadly coworking has spread across the city.

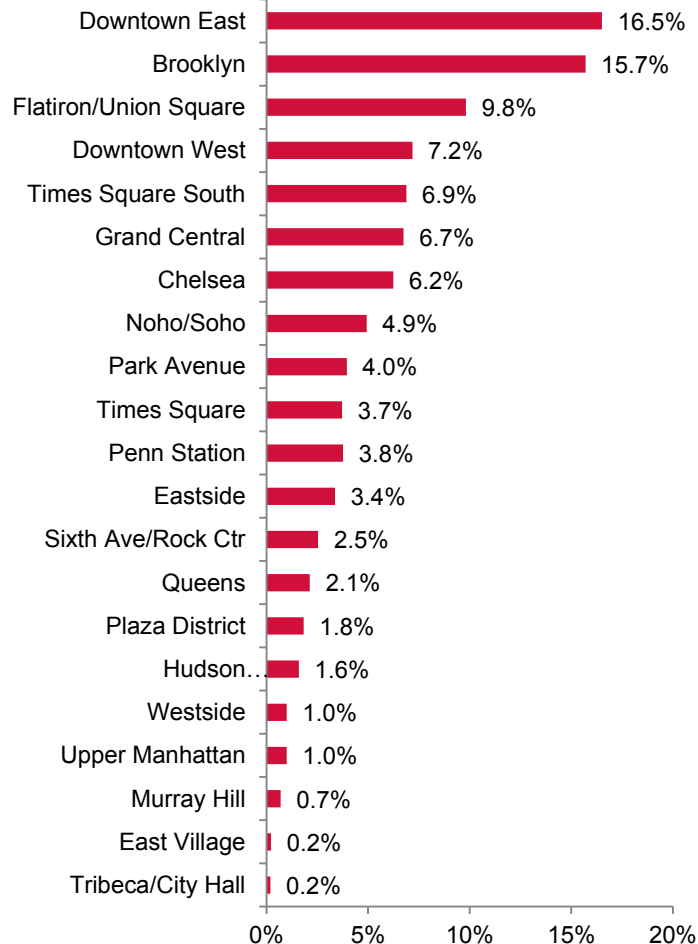
The Appeal for Tenants: Flexibility

One of the greatest challenges in starting a business is finding lease terms that offer flexibility to grow and shrink in the uncertain startup phase when a new business has little to no credit. These burgeoning tenants find that most landlords seek ten-year lease terms and credit-worthy tenants. Coworking fills this void, offering the option to rent space by the day, week, month, or year, while also requiring manageable security deposits proportional to a new business.

A tenant often matures out of coworking into its own office space when it needs its own branding, and when it has reached a point of stability and no longer needs the ability to grow or shrink space quickly as headcount changes. This often occurs when a tenant reaches 10 to 15 employees, but can vary tremendously from one company to another.

Recently, more mature businesses have started to move out of their own office space into coworking locations when they reach a critical juncture in their business plan and need flexibility once again. A case in point is a tenant with around 25 employees considering relocating from its own office into a coworking space, following a merger. The move will allow time and flexibility to develop a long-term plan and the tenant will move back into its own space in a year or two when it confirms its business plan and stabilizes its headcount. Another tenant recently took a full floor with WeWork to allow flexibility during a time of transition.

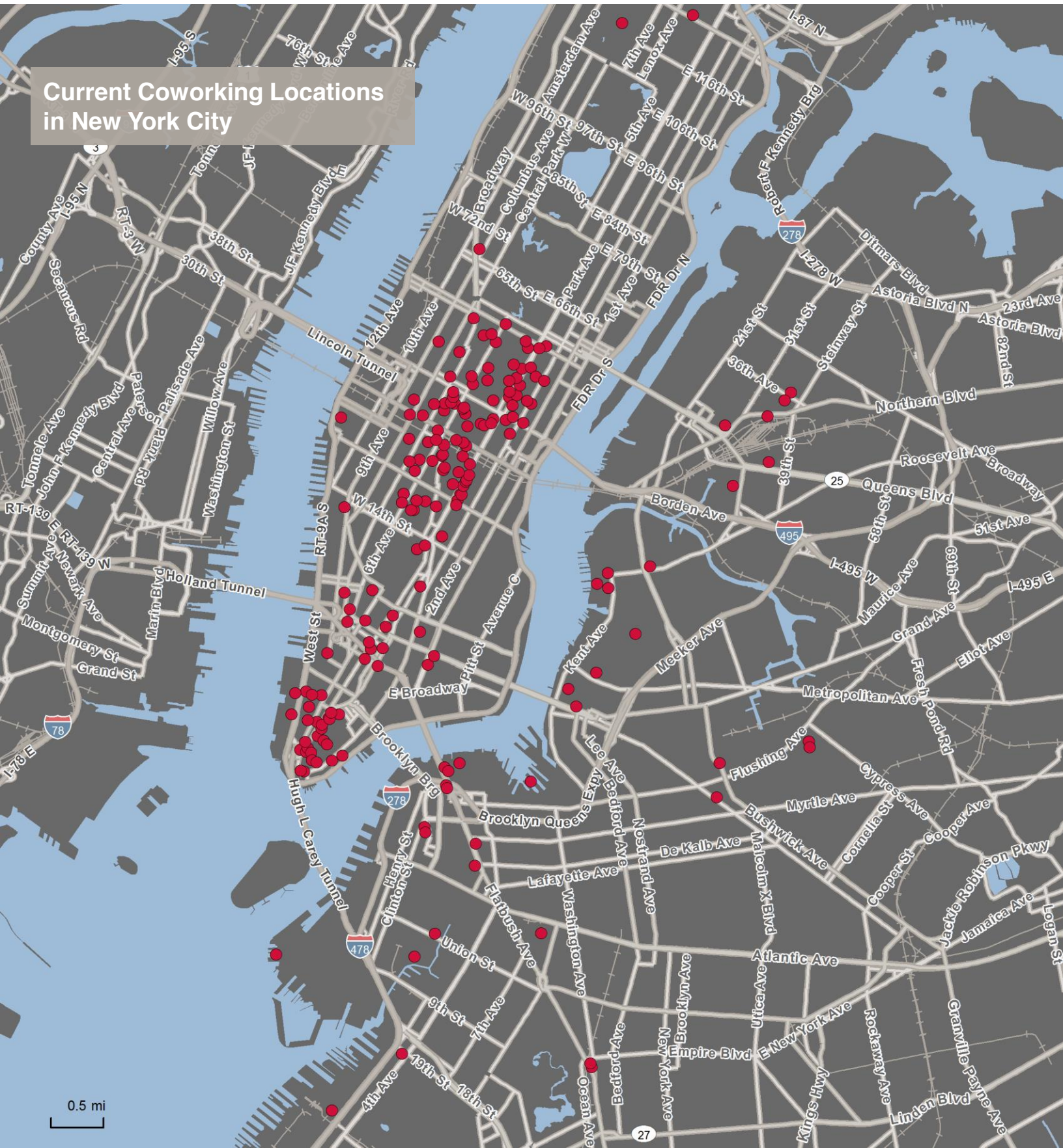
Current Occupancy by Submarket (Submarket as a % of the City's Total)





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Current Coworking Locations
in New York City



0.5 mi



Flexibility is possibly the most crucial asset of coworking and the main reason for its success.

Coworking spaces also offer “plug-and-play” convenience, eliminating the distraction of administrative tasks that go into setting up one’s own office. The sharing of amenities with other professionals provides access to conference rooms and other office amenities common to coworking spaces that the business may not be able to afford in its own leased space.

Landlords Buy into the Economy of Scale

Some landlords have embraced coworking, either by signing providers in multiple buildings, or by opening their own coworking space. Signing a provider as a tenant enables a landlord to benefit from the economy of scale while limiting risk, since the landlord will deal with one tenant who presumably has better credit than its members/subtenants.

Landlords that have created their own coworking space aim to capture companies that outgrow the coworking space as tenants of that landlord’s building. For example, Silverstein Properties, Inc. has moved several tenants that have outgrown its Silver Suites concept into other buildings in its portfolio.

The Future of Coworking

Time will tell whether coworking is a benefit or a risk to landlords and the Manhattan real estate market at large. Demand for the services of freelancers and small businesses may shrink in a bear market. If a critical mass of these enterprises fold, so too could the coworking spaces that house them. For a ripple effect to have that degree of impact, unemployment would have to spike dramatically and suddenly. This is unlikely in the coming years.

Buildings with sizable leases to coworking providers may be impacted. However, a notable reduction in the coworking landscape is unlikely to have a significant impact on the market overall, since the current total square footage of coworking space is a drop in the bucket, despite rapid growth rates. The 5.2 million square feet in Manhattan is just 1.2% of the market’s total office

inventory, and at this point, it is spread across Midtown, Midtown South and Downtown.

Coworking is nimble. The current model grew out of the last recession, indicating that key providers know how to navigate a downturn. Further, several providers have considerable longevity, with six of them having operated in New York City for more than 10 years. Regus has the longest tenure, operating in New York for about 18 years. As with any other segment of the market, a down cycle may cause a decrease in the number of coworking providers or locations. Nevertheless, coworking is likely to become a permanent part of the infrastructure of commercial real estate in New York.

A note about terms:

Recently, coworking providers have expanded their offerings to include unique/executive offices. For this reason, executive office suites are considered coworking in this study. The terms “coworking” and “shared workspace” are used synonymously.

Sources:

Newmark Grubb Knight Frank Research

Source of employment data: U.S. Census Bureau

Source of WeWork valuation: Wall Street Journal, 3/10/16, <http://www.wsj.com/articles/wework-the-communal-office-startup-raises-new-financing-1457558625>



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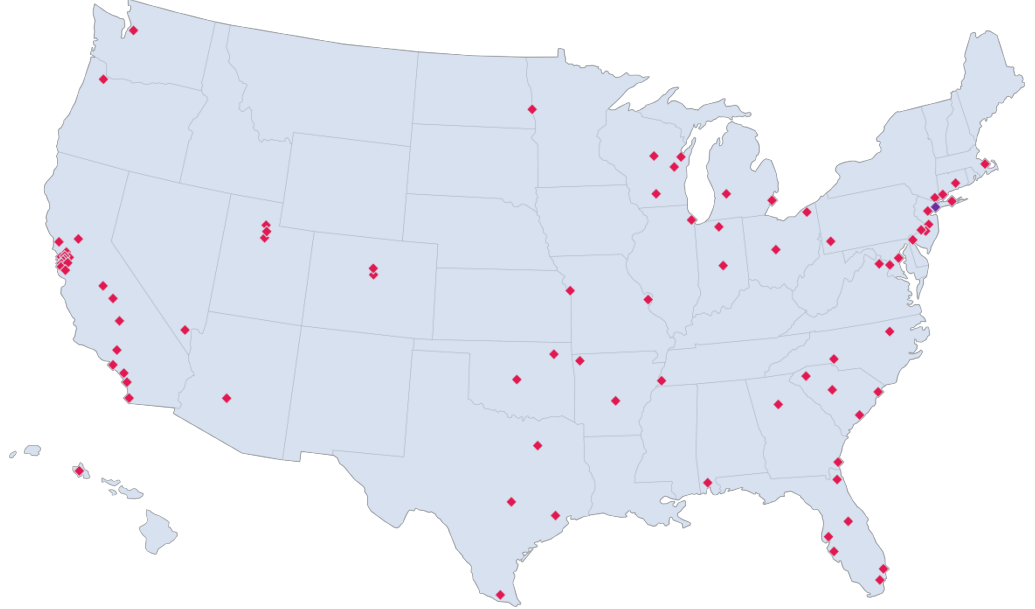
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