

CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

# THE CHANGING ROLE OF COWORKING IN THE WORKPLACE ECOSYSTEM

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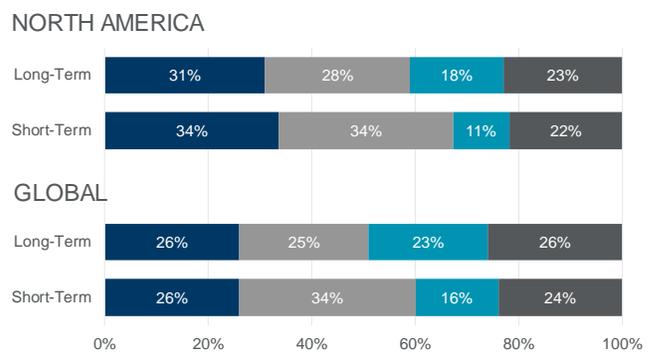
Coworking has become a significant driver of office demand with more than two million people working in over 22,000 coworking spaces around the world in 2019.<sup>1</sup> The sector was in its early stages during the Global Financial Crisis (GFC) and experienced explosive growth during the longest economic recovery on record. Not to be confused with flex office spaces, which are custom tailored to how a company works, coworking is an arrangement where several workers from different companies share an office space. Both types of workspaces promote collaboration, which continued to proliferate throughout the Americas in 2019 even as the sector anticipated a recession. However, a global pandemic is most likely not what respondents of coworking magazine *deskmag's* 2019 survey had in mind when asked about their outlook on a potential financial crisis. Members were relatively optimistic about their job security with 37% holding a favorable opinion globally—slightly more positive in North America at 39%.<sup>2</sup> However, North American sentiment over the relative health of coworking during a financial crisis was more pessimistic—34% of respondents felt that the sector would fare poorly in a downturn over the short term and 31% over the long term. In contrast, global responses of 26% illustrated less pessimism than the Americas.

Fast forward a year and the economy faces more precarious scenarios than anyone expected. The challenging business environment has forced some coworking providers to shutter operations in certain cities. Others have gone out of business entirely. A major drawback of coworking—its social factor—has become a drawback during a health crisis. As providers

said goodbye to the popular 'happy hour' and hello to social distancing, many were wondering how a sector focused on socialization and community would survive through the pandemic.

One negative externality of globalization is the increased likelihood of pandemics.<sup>3</sup> So while coworking providers navigate the new normal, they are not alone—all commercial real estate sectors will need to consider what this means for the total workplace ecosystem and its occupants. Investors are already planning to implement wider ranging Environmental, Social and Governance (ESG) strategies in their portfolios.<sup>4</sup> Some expect that a health and safety grade, similar to LEED certifications, will be necessary for properties. The path forward will require more of the ingenuity and creative thinking that made coworking commercial real estate so popular in the first place.

### COWORKING EXPECTATIONS IN CASE OF A RECESSION



Source: *deskmag* 2019 Member Survey

1 Number of coworking spaces worldwide from 2005 to 2020, Statista, <https://www.statista.com/statistics/554273/number-of-coworking-spaces-worldwide/>, (accessed June 4, 2020)  
 2 2019 Complete Coworking Forecast, *deskmag*, May 2019, <https://www.dropbox.com/s/jjor71mecwqbxdy/2019%20Complete%20Coworking%20Forecast.pdf?dl=0>, (accessed June 3, 2020)

3 5 Reasons Why Pandemics Like COVID-19 are Becoming More Likely, Gavi, April 28, 2020, <https://www.gavi.org/vaccineswork/5-reasons-why-pandemics-like-covid-19-are-becoming-more-likely>, (accessed June 2, 2020)  
 4 Clark, Casey, 'Five ESG Implications from COVID-19, Wealth Management', May 6, 2020, <https://www.wealthmanagement.com/etfs/five-esg-implications-covid-19>, (accessed June 2, 2020)

## Coworking During the Pandemic

Due to extended downtime, many coworking providers have requested some type of rent relief from their landlords. In turn, member expectations to have their fees waived during the shutdown period have been met with some hesitation from providers. Adding pressure to providers' operating income, some members who had lease renewals come due during the shutdowns have opted not to renew, uncertain on how long the stay at home regulations would last. However, once restrictions are lifted, these members may return. Additionally, new demand may rise from enterprise clients who, faced with economic uncertainty, need increased flexibility or they might require short-term space for employees during the slow phase-in or reentry into existing offices now observing **6 Feet Office** guidelines. Corporate occupiers' office strategies may ultimately be changed by the current environment, and coworking could play a role in the future of work ecosystems.

## Resuming Operations

As states and municipalities begin to open up local economies, the return to office is expected to be gradual and staggered. This means that coworking locations will initially be running at lower occupancy. To help organizations develop social distancing protocols,

Cushman & Wakefield introduced its *Recovery Readiness: A How-to Guide for Reopening your Workplace* and *The Safe Six*. These publications outline considerations to keep a six-foot spacing around workstations, in pathways and corridors, common areas and other places where employees would normally move throughout the work day. These steps, implemented in conjunction with enhanced health and safety guidelines, provide a solid framework for returning to the office.

In addition to Cushman & Wakefield's Readiness Recovery efforts, the Workplace Operator Readiness Council, an industry group which includes two dozen coworking companies, also released a guide for safe return to the office.<sup>5</sup> By banding together with strategic advisors, this consortium of workplace operators aims to set out guidelines which will prioritize the health and safety of returning members. Some strategies include:

- Recommending self-screening prior to entry
- Enhancing cleaning and disinfection, air quality and ventilation
- Limiting the capacity of kitchens and cafes and providing single serve, disposable food and beverage items

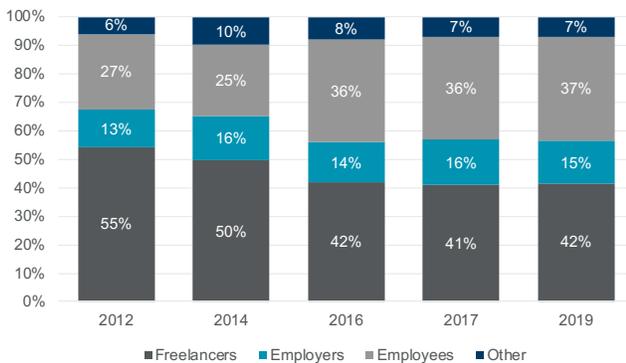
<sup>5</sup> Workplace Operator Readiness Council, 'Return-to-Office Play-book', Workplace Council, June 2020, <https://www.workplace-council.org/>, (accessed June 3, 2020)



Many states are implementing a 25-50% occupancy rule for returning office workers—based on a building’s Certificate of Occupancy—a cap that applies to coworking as well. So in the initial phase, members should have plenty of room to adhere to social distancing guidelines.

**The question on everyone’s mind is who will return?** To get to an answer, it helps to look at the main users of coworking space pre-COVID-19. In its 2019 Coworking Survey, *deskmag* found that freelancers and employees of large corporates were the most prominent users of coworking space. ***The share of users that are part of larger companies has been on the rise, and flexible office providers are increasingly focused on attracting and retaining enterprise-level clients.*** For our purposes, we’ve put the primary users into three groups: Freelancers, Enterprise Users (larger companies using as part of their real estate portfolio mix) and Startups and Small-to-Medium Enterprises (SME).

### PROFESSIONAL STATUS OF COWORKING MEMBERS



Source: *deskmag 2019 Global Coworking Survey*

**Freelancers:** This type of user typically pays monthly membership fees on short-term or 30-day agreements. Additionally, freelancers represent the member segment to most likely to have canceled or paused membership during the pandemic. The likelihood that they return to coworking space depends on a few factors.

1 Freelancers working from home in small, urban apartments will likely welcome the return to office. Additionally, ***access to micromobility options such as scooters and bikes*** will help with anxieties over public transit.

2 Several months of social distancing and quarantine have elevated the risk of loneliness which can have serious health risks.<sup>6</sup> ***Coworking gave many people the sense of community and an outlet for social interactions.*** Further, while a workforce can be productive working from home (WFH), it comes at a cost of opportunities that clusters of people and ideas naturally produce—impromptu learning or serendipitous ideation and inspiration. And we know from our own WFH survey data (50,000 respondents in 99 countries) that that personal wellbeing and a sense of connectedness suffer in WFH. All of which plays in favor of this user group welcoming a return in order to be around other workers again, even if at a distance.

3 Providers who allowed month-to-month users to stop or pause their memberships may have inspired ***a sense of loyalty*** among those freelancers, ***leading many of them to resume their memberships.***

**Enterprise Users:** A major coworking trend prior to COVID-19 was the move to attracting more corporate users. In the current environment, ***many providers are placing even more emphasis on signing corporations to “enterprise” locations.*** These users tend to take more space than freelancers or

6 Cacioppo, John T; Cacioppo, Stephanie, 'The growing problem of Loneliness', *The Lancet*, February 3, 2018, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6530780/>, (accessed June 3, 2020)





smaller entities, and they and sign longer leases, making a greater commitment to the location and offering more financial stability to providers. Many corporate employers were required to transition their office staff to WFH when shelter-in-place regulations were introduced. When these regulations are eventually lifted, these corporate occupiers will be faced with several decisions.

headwinds slowing activity through the end of the year. However, as activity picks up, startups will continue to have flexible office space requirements.

Small businesses have been among the most heavily affected sectors in this recession. Some may go out of business altogether. The balance may continue to be attracted to coworking because it doesn't require the commitment traditional office space does. That said, this user group may not be as attractive to coworking providers who may look to the relative stability of enterprise users. Regardless, activity with these users will merit observation in the months to come.

## Suburbanization

After more than a decade of urbanization trends, the reemergence of suburban markets was underway prior to COVID-19 in many major cities. The increase in millennial household formation initiated a migration to the suburbs and employers took note. According to census figures, in 2018, tens of thousands millennials aged 25 to 39 moved out of big cities across the United States.<sup>9</sup> Post-pandemic, it is widely expected that, although many people who moved to major urban centers in order to be close to work will stay, this renaissance of the suburbs will accelerate and attract more corporate occupiers.<sup>10</sup> Many of the largest coworking providers had suburban growth strategies even pre-COVID-19 (including WeWork, Regus/Spaces, Industrious, Office Evolution and many others).

A 2020 workplace survey found that 20% of corporate workers used coworking space at least one day a week, an increase from 14% in 2019.<sup>11</sup> Their use of the space was in addition to their primary workplace, and access to an alternative office space had a positive impact on their job performance. Working closer to home also has the benefit of allowing employees to spend less time on public transit and cut back on commute times.

9 Adamy, Janet; Overberg, Paul, 'Millennials Continue to Leave Big Cities', Wall Street Journal, September 26, 2019, <https://www.wsj.com/articles/millennials-continue-to-leave-big-cities-11569470460>, (accessed June 3, 2020)

10 Baker, Matt, 'Satellites and metroburbs: The future of the suburban office', RE Journals, May 29, 2020, <https://rejournal.com/satellites-and-metroburbs-the-future-of-the-suburban-office/>, (accessed June 3, 2020)

11 Gensler, Research Institute, 'US Workplace Survey 2020', Gensler, June 2020, <https://www.gensler.com/research-insight/workplace-surveys/us/2020?q=U.S.%20WORKPLACE%20SURVEY%202020>, (accessed June 10, 2020)

**1 Shift workers to more WFH:** In many cases companies have seen workers effectively WFH and maintain productivity, at least over a few months. While coworking offers the flexibility of short-term leases in built-out space, some occupiers could consider decreasing the coworking footprint in the short term and encouraging more WFH. *However, there can be real challenges for employees' connectivity to the team and culture when predominantly working from home.*<sup>7</sup> Companies that have transitioned staff to broader WFH in light of COVID-19 are for the most part holding their leases at this time, which would bode well for coworking demand.

**2 Provide workers more choice:** Increasingly employees are looking for the flexibility to choose the best workplace for the tasks they need to complete. For example, a core office may be best suited for client meetings. WFH may be best for intense periods of focus. Coworking locations in both urban and suburban submarkets could provide these companies with more choices for employees to experience the benefits of an office work environment but in a location that offers greater convenience. *A total workplace ecosystem emphasizing choice may eventually result in more coworking demand, increasing enterprise users' long-term value for operators.*

### Startups and Small-to-Medium Enterprises

**(SME):** Venture capital flows remained strong in the first half of 2020, on par with 2019.<sup>8</sup> Capital has flowed primarily to later stage companies rather than seed or early stage deals. The sector will most likely be impacted by the economic

7 For more analysis of how workers are doing working from home, check out Cushman & Wakefield's [The Future of Workplace: How will COVID-19 and data shape the new workplace?](#)

8 PitchBook Data, Inc.

As an alternative to committing to large amounts of space under multi-year leases at suburban corporate parks, some companies could opt to implement a re-imagined workplace ecosystem that balances office, home and third places. In this ecosystem, some employees WFH a couple of days a week and at a coworking office close to their home the other days. Taking up several coworking locations throughout suburban markets would allow companies to maintain flexibility as their staffing ebbs and flows.

## Paradigm Shift

Prior to COVID-19, the coworking sector recognized that operating model changes needed to occur in order for the sector to continue to thrive. Several providers were in the process of implementing platform transitions as the pandemic hit. Some of the paradigm shifts that will likely continue include:

- Transition to management:** As competition for flexible space offerings has increased, many providers have determined that partnering with landlords is the way forward. Several providers have developed partnerships with landlords where they manage all the coworking space in buildings.
- Provider as broker:** Some providers have begun to more frequently market their space as a traditional sublease without the added onsite coworking services. If some current members decide not to renew, this trend is likely to accelerate.
- Mergers and acquisitions:** Over the last decade, the number of providers exploded from just a few to thousands, ranging in size from mom-and-pop to large, global corporations. As the sector matured, it was expected that M&A activity would accelerate. However, the pandemic and resulting recession has moved the timeline forward.

## Coworking in the Americas

The Americas experienced explosive growth in coworking space and operators over the last three years. In the markets covered in this

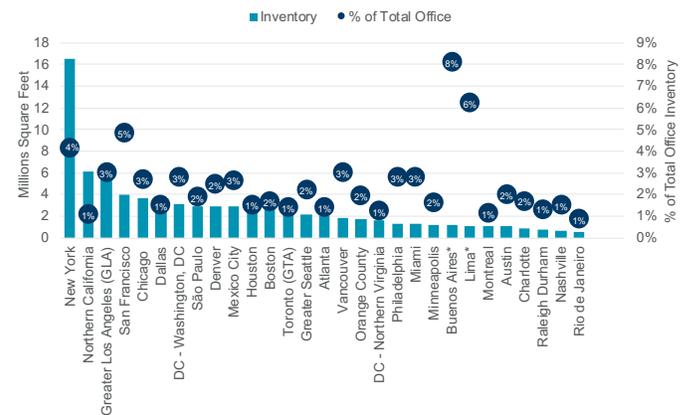
report (see table on page 9), as of Q2 2020, the coworking footprint nearly doubled since 2017 to 86.0 million square feet (msf). And coworking space as a percentage of total office space nearly doubled from 1.1% in 2017 to 2.1% as of Q2 2020. This growth had a significant impact on the office sector, influencing how landlords and occupiers think about office space.

## GEOGRAPHIC DISTRIBUTION

New York is the largest coworking market in the Americas with about 16.6 msf, followed by Northern California with more than 6.1 msf and the Greater Los Angeles area at just under 6.1 msf. Outside of the U.S., São Paulo has the largest coworking footprint at 2.9 msf, followed by Mexico City at 2.9 msf and Toronto with 2.4 msf.

The South American office markets of Buenos Aires and Lima have the greatest share of coworking space as a percentage of the total Class A market at 8.1% and 6.2% respectively. The large office markets of San Francisco and New York also have a significant presence of coworking space as a percentage of total office space at 4.8% and 4.1%.

## COWORKING INVENTORY ACROSS THE AMERICAS AS OF Q2 2020



\*Class A Office  
Source: Cushman & Wakefield Research, CoStar Group



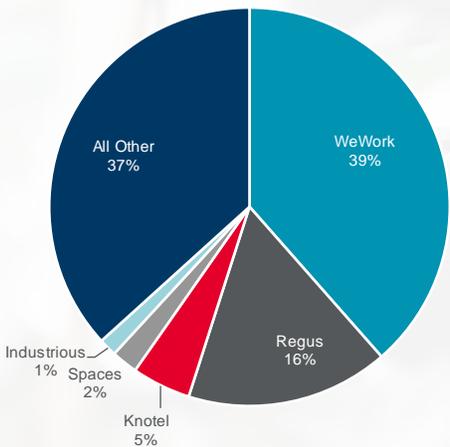
## PROVIDER SHARE

As the coworking footprint has grown, some providers have taken on the lion's share of office space across the Americas. Global providers far outpace local providers with the five largest providers representing 63% of the coworking footprint. WeWork occupies the greatest share of Americas coworking space with 33.1 msf, or a 39% capture of total coworking office space. Additionally, WeWork is the number one provider in 25 of the 29 markets covered in this report.

Regus (excluding Spaces) is the next largest global provider with 14.1 msf, capturing 16% of total Americas coworking space. Rounding out the top five, the next three global providers—Knotel, Spaces and Industrious—capture a combined 7.0 msf or 8% of total coworking space.

WeWork's largest footprint in the Americas is located in New York where it occupies over 8.0 msf and is considered the largest occupier in the market as of Q2 2020. WeWork also has a significant presence in Northern California (3.2 msf) and Greater Los Angeles (2.2 msf).

## TOP FIVE AMERICAS PROVIDERS



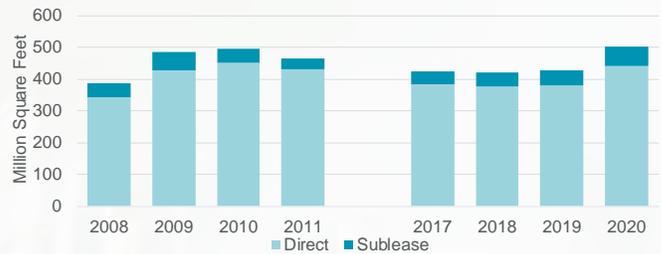
Source: Cushman & Wakefield Research, CoStar Group

## CYCLICAL PRESSURE

As the global economy navigates a new COVID-19 landscape, the coworking sector will not be immune to the pressures of a recession. Whatever shape the recession takes, the sector will need to confront a cyclical pressure that it has not experienced before. Although coworking was not a major player during the GFC, lessons learned during that time can help shed some light on what headwinds the sector may face.

Among the markets in this report, at the outset of the GFC, vacant sublease space increased 34% from 2008 to 2009. However, by 2011, all of that space had been absorbed, and vacant sublease space fell below 2008 levels. Going into this cycle, vacant sublease space is comparable to GFC levels at 1.5% of total inventory.

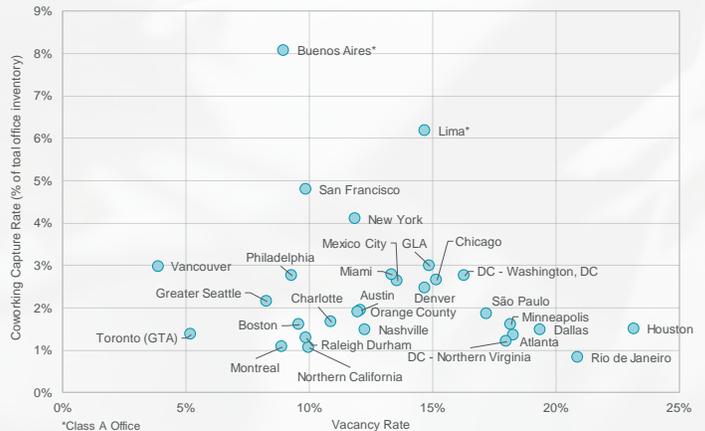
## AMERICAS VACANT SUBLEASE AND DIRECT SPACE



Source: Cushman & Wakefield Research, CoStar Group

Markets with low vacancy rates are in relatively good shape to weather the recession and come out of it with positive momentum. Overexposure to some niche sectors such as coworking could weigh on a market. Markets in the lower left quadrant of this analysis have low vacancy rates and a smaller capture of coworking, meaning they may be able to handle space give backs and lease terminations from coworking providers better than other markets. Class A office space in Buenos Aires and Lima has a high concentration of coworking space which increases their exposure to the sector. Gateway markets like New York and San Francisco could potentially have a larger stock of vacant space to work through the system. That said, gateway markets were also the first to recover after the GFC.

## COWORKING EXPOSURE BY MARKET AND VACANCY RATE



Source: Cushman & Wakefield Research, CoStar Group

MARKET	COWORKING INVENTORY	3 YEAR	CAPTURE RATE
	Q2 2020	% GROWTH	% OF TOTAL OFFICE MARKET
NEW YORK	16,565,098	77%	4.1%
NORTHERN CALIFORNIA <sup>1</sup>	6,102,323	166%	1.1%
GREATER LOS ANGELES (GLA)	6,080,047	93%	3.0%
SAN FRANCISCO	3,995,000	131%	4.8%
CHICAGO <sup>2</sup>	3,612,027	100%	2.6%
DALLAS	3,372,941	80%	1.5%
DC - WASHINGTON, DC	3,100,000	85%	2.8%
SÃO PAULO	2,941,227	169%	1.9%
DENVER	2,902,810	71%	2.5%
MEXICO CITY	2,876,329	33%	2.6%
HOUSTON	2,820,964	272%	1.5%
BOSTON	2,798,424	85%	1.6%
TORONTO (GTA) <sup>1</sup>	2,410,372	55%	1.4%
GREATER SEATTLE <sup>3</sup>	2,130,000	163%	2.2%
ATLANTA	2,027,835	71%	1.3%
VANCOUVER	1,771,604	36%	3.0%
ORANGE COUNTY	1,737,070	121%	1.9%
DC - NORTHERN VIRGINIA	1,617,757	49%	1.2%
PHILADELPHIA <sup>4</sup>	1,279,655	74%	2.8%
MIAMI	1,250,084	390%	2.8%
MINNEAPOLIS	1,229,487	75%	1.6%
BUENOS AIRES <sup>5</sup>	1,218,851	452%	8.1%
LIMA <sup>5</sup>	1,072,837	635%	6.2%
MONTREAL	1,070,518	53%	1.1%
AUSTIN	1,065,989	88%	1.9%
CHARLOTTE	876,791	30%	1.7%
RALEIGH DURHAM	739,332	114%	1.3%
NASHVILLE	624,394	67%	1.5%
RIO DE JANEIRO	524,359	45%	0.8%

1 Includes Oakland, Sacramento, SF, SF North Bay, San Mateo County and San Jose / Silicon Valley

2 CBD only

3 Includes Puget Sound

4 City of Philadelphia

5 Class A

Source: Cushman & Wakefield Research, CoStar Group

## Coworking is Here to Stay

Although coworking has been dramatically impacted by COVID-19 and the financial crisis, it's likely to remain a viable and important alternative for a variety of user types in the years to come—from self-employed freelancers to small, medium and large organizations. Although workers can continue to perform well at home, finding it conducive to collaboration and focus, WFH comes with some significant challenges. Personal connections and learning suffer. People feel disconnected to their

company cultures. Wellness suffers. So as workers around the globe continue to seek a variety of locations and experiences to drive convenience, functionality and wellbeing, coworking can play a significant part in that ecosystem. For freelancers, it offers interactions, chance collisions, opportunities for inspiration and more. For companies, coworking offers business flexibility but also the opportunity to support employee choice, enabling people to work from the environments that best support performance, whether that's at home, in an urban core or satellite office, or in a third place.

# UNITED STATES



# ATLANTA

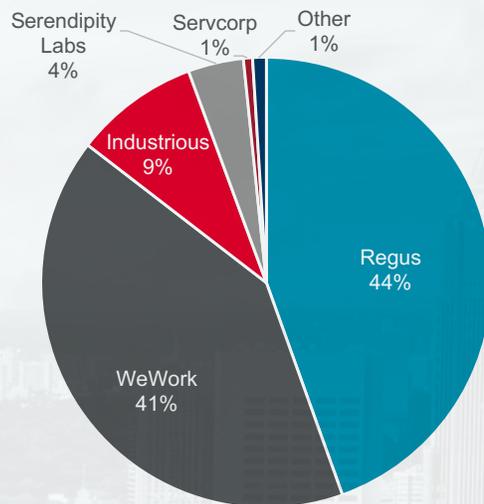
Atlanta's coworking inventory totals more than 2.0 million square feet (msf), having grown by more than 71% since 2017. This space is scattered across the Atlanta metro area, but is mostly concentrated within the Atlanta Central Business District's (CBD's) Midtown market. Here, coworking accounts for 4.7% of the Class A inventory. The largest provider in the metro area is Regus, who operates 606,298 sf under the Regus name and 296,629 sf under the Spaces moniker. More than two thirds of Regus locations are in the suburbs, while Spaces locations are distributed more evenly across the CBD and non-CBD. Meanwhile, more than 80% of WeWork's 830,019 sf of space across the Atlanta metro area is located within the CBD market. While Regus offices average 18,000 sf each, WeWork locations are fewer in number, but larger in size, averaging 64,000 sf per location.

The largest coworking spaces are two 80,000-sf locations operated by WeWork—one located Downtown at Centennial Tower and the other in Buckhead at Tower Place 100. And a larger location is planned to open later this year in Midtown. The Interlock, a 290,000-sf mixed-use property in West Midtown, is currently under construction and is anticipated to deliver in July. WeWork is slated to serve as the anchor tenant, occupying 118,000 sf of space, though the future of their relationship with the development is now uncertain.

A facility located at T3 West Midtown, which was completed in 2019, also finds itself in a holding pattern. Building owner Hines had planned a joint venture coworking space for the full second floor totaling 35,500 sf. Progress on this lease was placed on pause at the onset of the COVID-19 outbreak, and in mid-May, Hines began marketing this space directly for traditional office users in response to demand for another full floor at this location.

Prior to COVID-19, the Atlanta overall vacancy rate had been forecasted to rise moderately from 18.3% in 1Q20 as speculative projects were to be delivered and several anticipated blocks of second-generation space vacated. Sublease availability has registered steady growth over the past year. Approaching 2.5 msf in total, sublease space is currently at its highest point in this economic cycle. The ratio of sublease to total vacancy is on the rise, with sublet space now accounting for 7.4% of total space in Atlanta metro. In Q2, the sublease share of total vacant space grew for the fifth consecutive quarter to its highest point since the GFC.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# AUSTIN

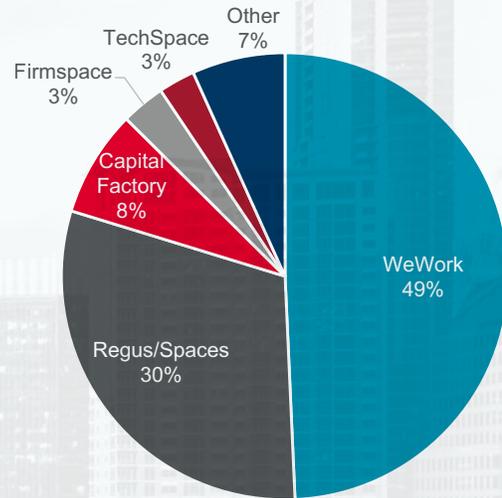
Coworking in Austin has blossomed extensively over the last several years. Between 2017 and 2019 alone, there was more than 407,000 sf of absorption recorded by coworking companies throughout the city. Coworking now makes up nearly 2% of the market's total inventory. As is the case in most cities, WeWork is the largest coworking provider in Austin, representing nearly 526,000 sf of shared space. Regus/Spaces is in a distant second with approximately 325,000 sf of space, and several other boutique flex providers with smaller footprints in and around the city. The majority of the coworking inventory in Austin is in the CBD, but other areas including the up-and-coming East Side submarket and Domain area have recently become popular with shared space users.

Like the rest of the country, mandated quarantine orders put in place in early April practically shut down Austin's thriving economy overnight. All offices not deemed "essential" were shuttered throughout the city, which of course included all coworking facilities. Recent initiatives by the governor of Texas to reopen the state have loosened some office restrictions but with strict guidelines such as allowing only 50% building occupancy. This proves challenging for most of the Austin coworking companies as they try to balance strict social distancing and health guidelines with the "collaboration" their businesses are built upon. In addition, many of the amenities that coworking facilities market as part of their perks such as coffee/beer bars, eateries, gaming and communal areas are no longer available to their members due to safety restrictions, further lessening their value. Mask requirements, floor to ceiling barriers, and other protective measures are now in place at most Austin coworking companies, but as with most office space users, many occupants are choosing to work from home. Recent spikes in the number of positive COVID-19 cases in Austin has added additional stress to an already weakening business model.

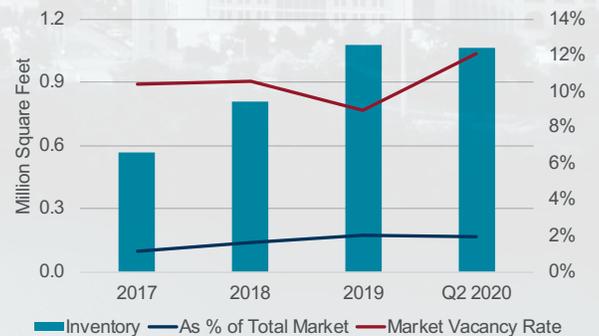
Prior to the pandemic, the Austin office market was red-hot and was one of the fastest growing metro areas in the country. For the last decade, overall vacancy rates have stayed below 10% with sublet space at a minimum. Since that time, we have seen an onslaught of additional sublet space come to market, with approximately 900,000 sf of new sublet space added to the available inventory since April 1, much of which is in the CBD.

In the office construction pipeline, approximately 1.8 msf of office space is slated for delivery the remainder of 2020, of which only 17% is preleased. For 2021, around 2.8 msf of space is slated for delivery, with approximately 26% preleased. With leasing activity stagnant and the influx of sublet space accelerating, it's not out of the question that vacancy rates could climb significantly in the next 18 months. If additional space from coworking users is added to the net sublet inventory, vacancy levels could reach levels not experienced in Austin since the GFC.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



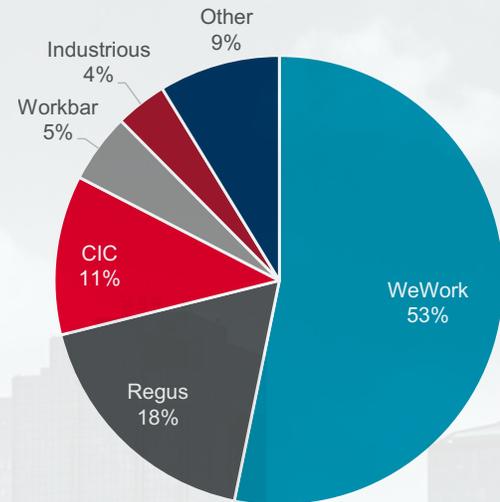
# BOSTON

In the Greater Boston Office market, coworking space makes up 1.6% of the total market inventory. Despite slowed growth in recent quarters, coworking space in the Boston market has increased by 85% over the past three years. WeWork and Regus have retained their status as the largest coworking firms in Boston, together occupying just under 2.0 msf of office space. Some of WeWork's largest tenants in this region include Amazon, ezCater, Puma and General Electric. The city of Boston has the highest concentration of coworking space, accounting for 76% of Greater Boston's market. The Financial District, Back Bay, and Seaport markets have the largest density of coworking space within Downtown Boston.

On May 25, 2020, offices throughout most of Massachusetts reopened at 25% capacity, while offices in the city of Boston followed suit on June 1. By June 22, offices increased capacity to 50% of their normal figure. The state's four-phase plan for reopening currently sits in Phase Three, with subsequent progress relying on trends in the state's concentration of COVID-19 cases. Construction and public transport have resumed normal operations at this point as the city moves toward further increased capacity in the workforce.

Pre-COVID-19, overall Boston office market vacancy sat at 9.2%. In the last three months, Downtown Boston sublease availability has surged, with nearly 500,000 sf of sublease space brought to market. Similar trends have continued in some of the suburban markets where large users who are experiencing mass layoffs have brought big chunks of sublease space to the market. On April 28, Trip Advisor announced that they were reducing their workforce by 25%. As a result, the company put a 100,000 sf sublet on the market at its Needham, MA headquarters.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# CHARLOTTE

Coworking space in Charlotte is primarily dominated by market newcomer WeWork and established Regus/Spaces locations. These two coworking powerhouses comprise almost half a million square feet in Charlotte, equating to just over 60% of the total coworking market share. Local coworking operators have grown in recent years primarily by renovating outdated smaller industrial spaces into sought after creative space in Charlotte's center city.

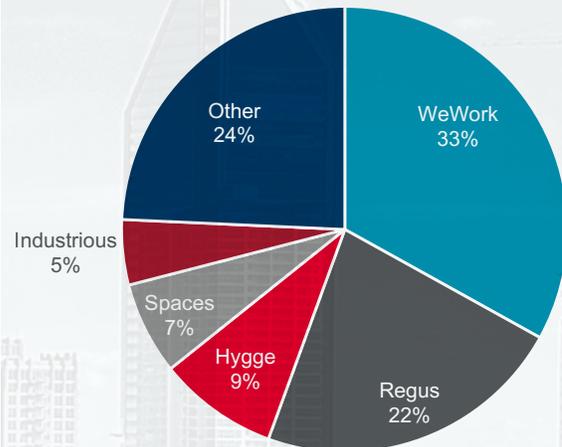
Since 2017, coworking space grew 30%, primarily in the Uptown and Southend submarkets. TAMI (technology, advertising, media, and information) users especially find the atmosphere vital to their business operations to retain talent and foster innovative thinking.

One common misconception surrounding companies that utilize coworking space is users tend to be very small. This is not the case in Charlotte. Large corporations will often lease coworking space as a viable short-term solution if the company's real estate timelines don't align or if the large corporation is looking to attract millennial talent. In fact, close to 140,000 sf of coworking space is comprised of single floor corporate users.

This is one of the many reasons Charlotte's Q2 2020 office vacancy rate of 10.9% should remain relatively unaffected. Even with a projected 30-50% increase in coworking vacancy due to COVID-19, vacancy citywide would potentially be only impacted by 20-50 basis points (bps).

Though coworking will be impacted by the pandemic, there will always be a demand for liquid real estate space tenants need and prefer. With a low vacancy rate and high demand demonstrated with 4.3 msf of net absorption over the past three years, Charlotte's fundamentals are well positioned to "weather the storm" from uncertainties caused by the pandemic.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# CHICAGO

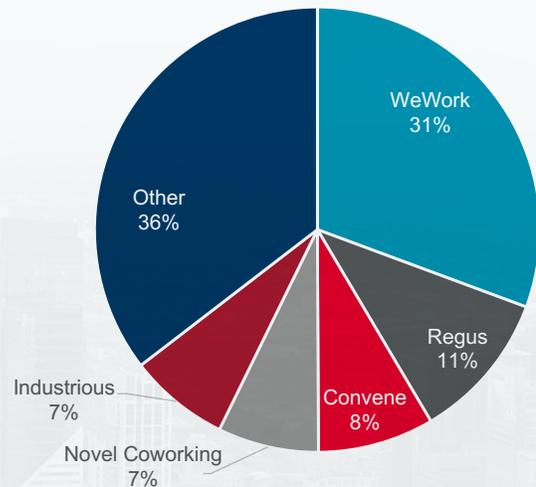
Although coworking space can be found throughout the Chicago market, the greatest concentration of inventory is found in the CBD, where the coworking/flexible office market totals approximately 3.6 msf, representing 2.6% of office inventory. Since 2017, coworking inventory in the CBD has increased 100%. As a result, coworking space as a percentage of total CBD inventory, increased from 1.4% to 2.6% over the same period.

WeWork has the largest footprint among providers at 1.1 msf, making it one of the largest occupiers in the CBD. WeWork is followed by Regus with more than 390,000 sf and then Convene with more than 305,000 sf. Together, these three operators control 50% of coworking space in the Chicago CBD. The West Loop has the greatest amount of coworking space with 1.0 msf, which accounts for 27% of coworking inventory but just 2.0% of the submarket's total inventory. Fulton Market District boasts the highest concentration of coworking space - 13% of inventory in the submarket is occupied or leased by coworking providers.

Chicago's relatively low level of exposure to coworking compared to other gateway office markets should soften any potential vacancy increases due to coworking. Prior to COVID-19, the Chicago CBD overall vacancy rate was forecasted to rise moderately from 14.1% in 1Q20 due primarily to a robust construction delivery schedule. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase CBD vacancy by 80 - 130 basis points (bps).

In the current environment, there is uncertainty across the CBD surrounding several planned coworking locations that have yet to be delivered. Providers who are slated to take occupancy may still do so or could potentially put those spaces up for sublease. Sublease availability in the CBD has steadily increased since Q1 2019. Approaching 3.5 msf in total, available sublease space is currently at its highest point this economic cycle. Sublease space as a percent of total available space is also rising and currently accounts for 15.2% of total available space in the Chicago CBD. This, in combination with an increase in sublease vacancies from coworking firms, is expected to push vacancies higher than initially expected in 2020.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# DALLAS

Dallas' coworking/enterprise flex space market spans across 3.4 msf and accounts for 1.5% of the market's office inventory. The primary providers are Regus (680,712 sf), WeWork (578,129 sf), Spaces (423,068 sf), WorkSuites (273,210 sf) and Venture X (209,964 sf). Combined, the top three providers account for 50% of the market's inventory and the top five providers account for 64.2% of the market's inventory.

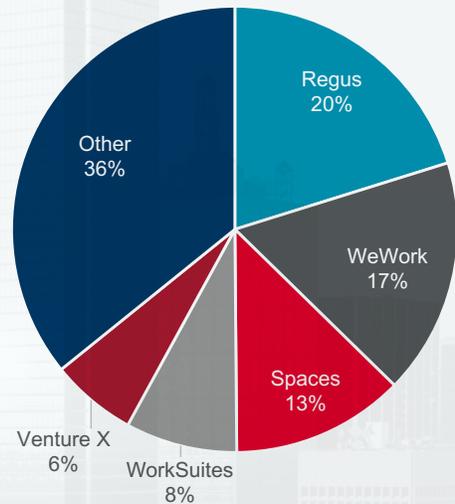
Texas' Stay Home Order lasted through April 30 and select businesses following social distancing restrictions (25% capacity) reopened May 1. Dallas County's Stay Home Order lasted through May 15 but did not impinge on the state and market's reopening initiatives. Offices with single workers were able to reopen on May 1. Non-essential, office-based workplaces, including coworking/flex spaces, were allowed to reopen May 18 at 25% occupancy. On June 3, offices were allowed to begin operating at 50% capacity while continuing to maintain appropriate social distancing protocols. As of July 3, following the recent surge in COVID-19 cases, face coverings are now being required in public spaces with few exceptions.

Since 2017, coworking/enterprise flex inventory has grown by 80% to 3.4 msf. In Q4 2017, the coworking market accounted for 0.9% of Dallas' office inventory, and by Q2 2020, increased to 1.5%. The highest concentration of coworking inventory is in the Legacy/Frisco submarket (612,476 sf) and the Far North Dallas submarket (402,028 sf). The two submarkets combined account for 30% of the total coworking space in Dallas.

Prior to COVID-19, Dallas office market vacancy was forecasted to increase to 18.6% in 2020 per Cushman & Wakefield's semi-annual forecast. By the end of Q2 2020, overall vacancy increased to 19.4%. A significant increase in coworking vacancy to 30% - 50% of all coworking inventory could potentially increase citywide overall vacancy by 46 - 76 basis points (bps).

The Dallas office market's sublease vacancy reached an all-time high during the dot-com recession and surpassed 6.0 msf in Q2 2002. During the GFC, sublease vacancy reached a slight peak at 2.3 msf in Q4 2009 before reaching a true peak in Q4 2010 at 2.6 msf. As of the end of Q2 2020, sublease vacancy was reported at 2.9 msf and accounted for 1.3% of total inventory. This is lower than the GFC and the dot-com peaks where vacant sublease space accounted for 1.4% and 4.1% of total inventory, respectively. Due to COVID-19, sublease availabilities from coworking firms are expected to grow and vacancies are expected to rise. However, the market still has a way to go before it surpasses the 23% overall vacancy rate mark seen in the prior two recessions.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# DENVER

The Denver metro area is home to more than 2.9 msf of coworking/enterprise flex space, accounting for approximately 2.5% of metro-wide inventory. The largest provider of coworking/enterprise flex space is WeWork, which accounts for 28.3% of all coworking space around the metro area with roughly 823,000 sf. The next two largest providers are Regus/Spaces and Novel, with approximately 436,000 sf and 343,000 sf, respectively. Together, these three large providers account for 55.4% of the coworking/enterprise flex market in Denver. Office Evolution currently has the most locations in the Denver area, with a primary focus on suburban submarkets.

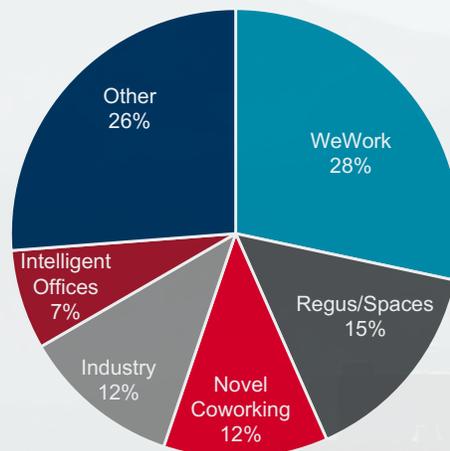
The State of Colorado's Stay-at-Home order remained in effect through April 26, while the County of Denver's Stay-at-Home order was intact through May 8. During this time, non-essential employees were barred from office locations, which in turn left many coworking spaces sitting vacant from March through May of 2020. Now, with Phase Two Safer-at-Home in place, it has allowed for non-essential services to reopen as long as they follow strict policies and guidelines. For office space, this includes capping occupancy at 50% on any given day, while still following social distancing and COVID-19 health protocols.

Coworking providers have continued to grow their footprint since 2017. At the end of 2017, coworking accounted for 1.5% of Denver office inventory, a figure which had increased to 2.5% by the end of Q2 2020. Coworking can be found throughout the Denver metro area, but is highly concentrated in the CBD and RiNo submarkets. Cumulatively, these two submarkets account for 61% of total coworking inventory, largely due to the young and highly educated workforce that resides in and around Denver's urban core. The Boulder submarket also has a strong coworking/enterprise flex footprint, which is largely attributed to the large technology and entrepreneur tenant base that resides in Boulder.

At the end of Q2 2020, Denver's overall vacancy was 14.7%. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 74 - 123 basis points (bps).

During the GFC, available sublease vacancy peaked at approximately 1.5 msf during 2009. During the Q2 2020, sublease vacancy surpassed the GFC peak, with over 2.0 msf of sublet vacant space. This increase is expected to continue as companies realign their real estate footprints as a result of COVID-19. Coupled with the current state of oil and gas and an increase in sublease vacancies via coworking firms, this figure is expected to rise higher than initially expected during 2020.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# HOUSTON

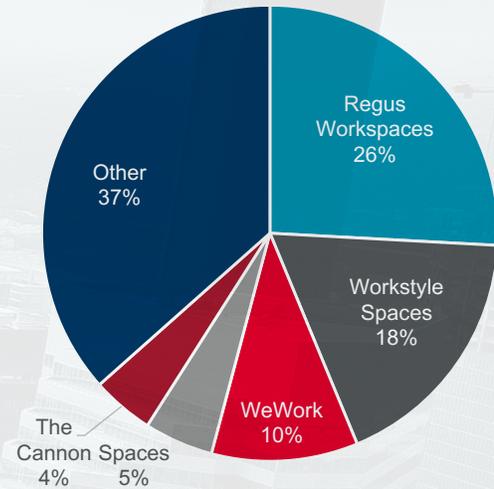
Houston's inventory of coworking/enterprise flex space has more than tripled since 2017 to 2.8 msf, or 1.5% of office market inventory. More than half of the coworking space is from three companies including Regus Workspaces (729,211 sf), Workstyle Spaces (505,092 sf) and WeWork (292,736 sf). Together, these three providers account for 54.1% of the coworking space in Houston. The greatest concentration of coworking space is in the West Loop/Galleria, Central Business District and Katy Freeway submarkets.

Demand for coworking and flexible office space increased throughout 2019 and several providers expanded including Life Time Work, Spaces, The Cannon and WeWork. Since the coronavirus pandemic, several locations were postponed or put on hold including Local Office and CBRE's in-house coworking brand, Hana. Once the impact of the coronavirus pandemic on occupier demand is more well-known, plans could resume.

Texas' Stay Home Order expired April 30 and, effective May 18, office-based employers could operate with certain restrictions. Although some coworking providers remained open for essential workers, most members continue to work at home. Coworking providers will be challenged with the current limit of 50% occupancy and providing a safe environment when sharing temporary desks and workspaces.

Prior to COVID-19, Houston's office market was still recovering from the 2014 oil crash. Since 2015, Houston's office market has had 5.4 msf of negative absorption and overall vacancy increased for the fifth consecutive quarter to 23.2% in Q2 2020. Currently more than 5.7 msf is available for sublease, including more than 4.1 msf of vacant sublease. Leasing activity has slowed and is expected to remain sluggish indefinitely. The current economic situation will likely result in rising sublease space as companies, including coworking providers, shed excess office space.

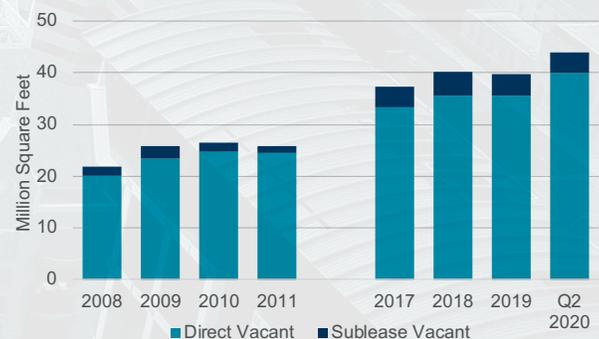
## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# LOS ANGELES

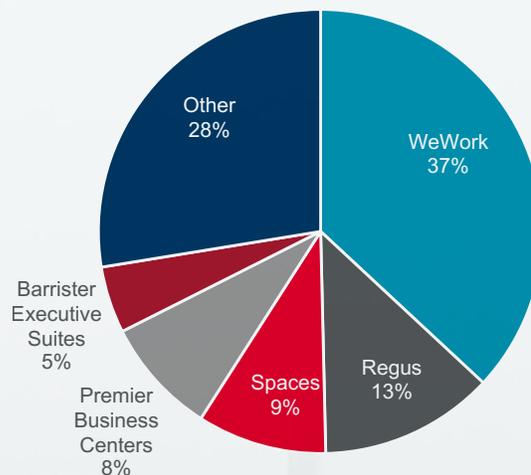
The coworking and flexible office sector has served as a potent source of occupancy growth in Greater Los Angeles (GLA) in recent years. The footprint of coworking operators has reached a total of 6.1 msf as of Q2 2020, making GLA one of the top three largest coworking markets in the nation. Now, occupying nearly 3.0% of the overall GLA office inventory, coworking has been amongst the most active industries taking space in the market, surpassing the activity of the historically dominant entertainment, tech and media sectors in 2019.

While the concept of flexible workspace has been prevalent in GLA for years, the past two years (2018 and 2019) saw a surge in activity by prominent industry players securing prime office locations in the market. New additions by the coworking sector reached 2.1 msf in 2019, making up nearly 14% of the GLA overall leasing activity of 15.1 msf. Although this represented a record high in activity, the number of deals signed as well as the square feet leased has declined every quarter since Q1 2019, with no new leasing activity by the sector seen in Q1 2020. This is a sign that the flexible space workspace industry has passed its peak growth period after serving as one of the most active tenants of leased office space.

As of Q2 2020, the LA West market has the highest coworking concentration with nearly 2.5 msf, just over 40% of the total GLA coworking inventory, followed by LA Central market (including Downtown LA, Hollywood and Mid-Wilshire) with 1.6 msf, accounting for 26.2% of the total marketwide. LA South and LA West have experienced the most significant annual growth in coworking space, increasing 17.2% year-over-year, primarily driven by new additions in the Santa Monica, Culver City and El Segundo submarkets.

WeWork, Spaces and Knotel have been the most active coworking operators in terms of new GLA locations over the past year, while newer entrants have made significant strides. With a total of 2.2 msf of coworking space, WeWork has the largest share of coworking inventory in GLA at nearly 37%, and is the only company with more than 1.0 msf. Regus ranks second with 772,064 sf (12.7% market share), followed by Spaces at 573,410 sf (9.4% market share). Although holding shares of less than 5.0% of the market, Knotel, CommonGrounds and Industrious have gained traction in the market over the past year.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



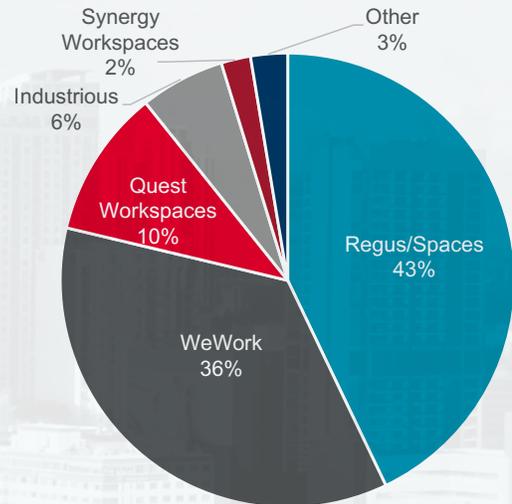
Regus/Spaces and WeWork are the primary providers in Miami-Dade's 1.25 msf coworking/enterprise flex space market. Regus/Spaces is the largest office occupier in the city with 536,300 sf of space, or 1.2% of the market's total inventory. Meanwhile, WeWork comprises 1.0% of the market with 447,750 sf. Together, these two providers account for 78.7% of the coworking space in Miami.

Miami entered Phase One reopening on May 18, 2020 and was still in Phase One at the end of the second quarter of 2020. Since non-essential business closed, most coworking space has been sitting vacant during the pandemic. Miami-Dade's initial Phase One reopening plans include 50% occupancy limits on restaurants and retailers. This means the earliest coworking providers may expect some members to return will be during Phase Two, which would include professional services. As of publication, cases have continued to rise in Miami, so there is no timeline for Phase Two to begin, and strict social distancing guidelines and face coverings will continue to be required in public.

Coworking/enterprise flex inventory has increased 390% since 2017 to 1.25 msf. As a result, coworking space as a percentage of total inventory increased from 0.05% to 2.8% over the same period. The greatest concentration of coworking space was in the CBD with 604,000 sf.

By the end of Q2 2020, the County's vacancy rate totaled 13.4%. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase countywide overall vacancy by 83 - 139 basis points (bps). Sublease availability in Miami-Dade was low with 234,248 sf vacant which is substantially lower than the GFC peak of 753,000 sf reached in 2Q 2009. Miami's sublet inventory is also expected to increase as a result of COVID-19. This, in combination with an increase in sublease availabilities by coworking firms, is expected to push vacancies higher than initially expected in 2020.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# MINNEAPOLIS

The coworking/enterprise flex space market totals 1.2 msf, or 1.6% of the total Minneapolis office inventory. The market is led by three operators; WeWork (237,000 sf), Regus (198,000 sf) and Novel Coworking (192,000 sf) which together control 51% of the space in the market.

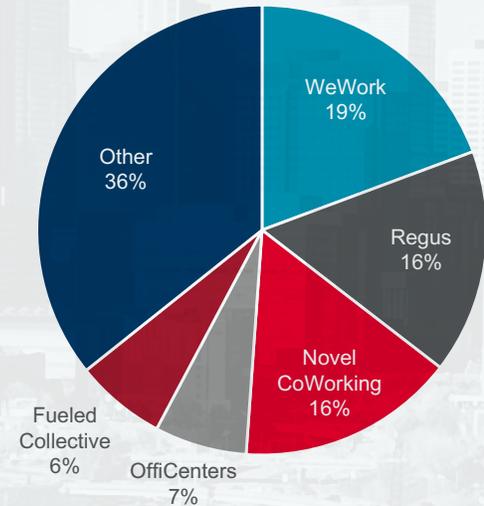
Minnesota's stay-at-home order expired May 18, 2020, and Governor Walz's declaration of peacetime emergency extended through July 13, 2020. The combination enabled the state to phase in business openings. Starting May 18, 2020, non-essential businesses and retailers resumed limited operations with social distancing rules in place. Bars, restaurants, salons and gyms began phased reopenings based on capacity limits on June 1, 2020. While a limited number of coworking operators had been open for essential workers during the initial phase of the stay-at-home order, most had closed and offered virtual support. As operators begin to reopen, they will do so with a combination of policy and physical floorplan modifications designed to accommodate social distancing guidelines including capacity limits, reduced seating, enhanced cleaning routines, and published health guidelines for staff and members.

Since 2017, coworking operators have nearly doubled their footprint across the market. Initial expansion efforts focused on the Minneapolis Central Business District (CBD) as the submarket now accounts for 56% of coworking inventory. That total will increase once Life Time Work opens a 53,000 sf location at the new Thirty building in the fall of 2020. After operators built out CBD facilities, they turned to suburban opportunities for network expansion. The Southwest and West submarkets were targeted specifically and now account for more than 25% of inventory.

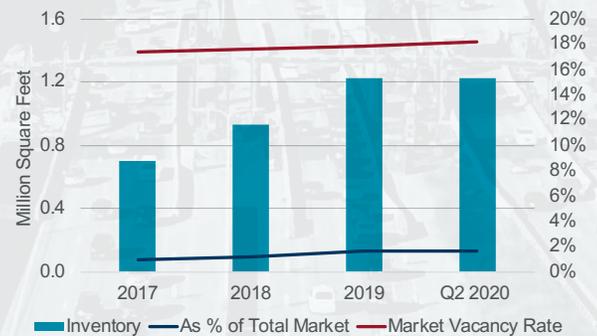
Prior to COVID-19, the overall market vacancy rate was forecasted to slowly increase throughout 2020 per Cushman & Wakefield's semi-annual forecasts. By the end of Q2 2020, market-wide vacancy totaled 18.2% as companies generally pursued short-term solutions while pushing out long-term real estate decisions. While coworking operators have expanded rapidly in recent years, the industry continues to represent a small percentage of the overall office market at approximately 1.6%. That means that even if coworking vacancy increases significantly, the effect on Minneapolis' overall vacancy will be low.

Vacant sublease space in Minneapolis increased nearly 37% from Q4 2018 through Q2 2020 but remains significantly lower than the nearly 2.0 msf recorded at the height of the GFC in June 2009. An increase in sublease vacancy is expected through 2020 and 2021 as a result of COVID-19, with some of that space likely coming from coworking operators.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# NASHVILLE

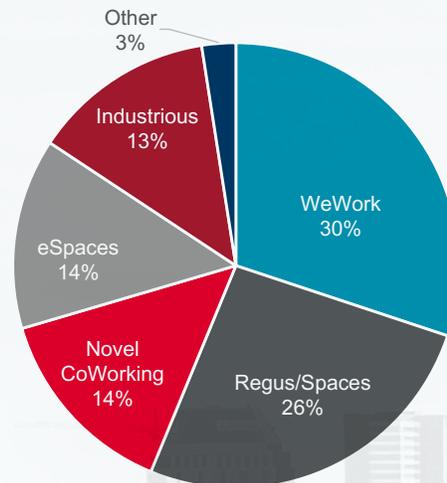
Nashville's coworking/enterprise flex space inventory totals 624,394 sf, where WeWork, Novel Coworking and Regus are the primary providers. Nashville's urban core submarkets, Midtown and the CBD, contain 65% of the entire market's coworking inventory. Within the last year, WeWork opened two new locations in Midtown, doubling its Nashville footprint by 97,000 sf.

During Nashville's Safer at Home Order, only essential businesses such as construction and grocery stores could remain open, which has forced many coworking locations to close. As of July 9, 2020, Nashville's mayor has moved the city back to Phase Two which still allows retail stores and restaurants to remain at 50% capacity and to exercise curb side pick-up. Coworking space is expected to remain vacant and closed until at least Phase Three. As a direct result, within the last month, an increase of 131,000 sf of vacant coworking space has been marketed. However, with Nashville showing low COVID-19 case volumes compared to other metros, businesses could reopen and capacity limitations could ease.

Prior to COVID-19, Nashville's overall vacancy rate stood at 10.7% which reflects healthy occupancy given a drastic increase in supply over a five-year period, where more than 6.4 msf was delivered to the market. Even though coworking providers are expanding, the total inventory only accounts for 1.5% of Nashville's market. As a result, the increase of coworking vacancy has had minimal effect on Nashville's overall vacancy.

By the end of Q2 2020, Nashville's sublease vacancy totaled 2.0%, keeping the market in a healthy and strong position during economic uncertainty. Currently, the market has not shown any major vacancy changes, and the sublease market has shown only minor increases in availability. However, both direct and sublease vacancy is expected to rise but remain an attractive option for tenants looking for short-term solutions.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# NEW YORK CITY

WeWork, Knotel, and Regus are the primary providers in New York City's 16.6 msf coworking/enterprise flex space market. WeWork is the largest office occupier in the city with 8.0 msf of space, or 2.0% of the market's total inventory. Meanwhile, Knotel (2.2 msf) and Regus (1.9 msf) are the 11th and 13th largest and each comprise 0.5% of the market. Together, these three providers account for 73.4% of the coworking space in Manhattan.

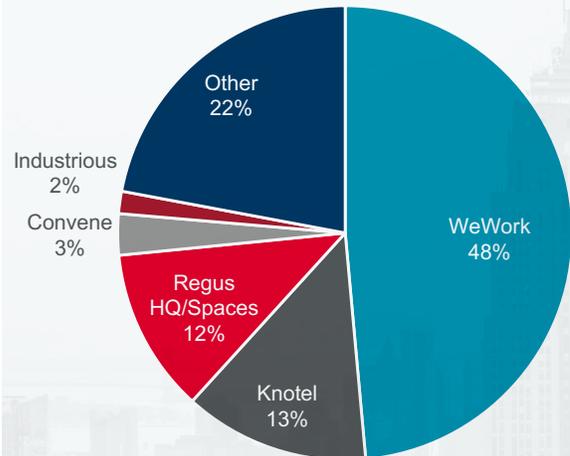
New York City entered Phase Three of New York's four-phase reopening plan as of July 6, 2020, allowing gatherings of up to 25 people and some non-essential businesses. Phase One started on June 8 and allowed construction, manufacturing, and wholesale supply chain businesses to open as well as many curbside retailers. Beginning on June 22, Phase Two allowed a greater range of businesses to resume, including offices, outdoor dining, places of worship, storefront retailers and professional services. This meant that coworking providers could open for members following strict social distancing guidelines and a maximum occupancy of 25%. Since this point, the return to work for New York City employers has been slow and measured.

Coworking/enterprise flex inventory has increased 77.1% since 2017 to 16.6 msf. As a result, coworking space as a percentage of total inventory increased from 2.3% to 4.1% over the same period. The greatest concentration of coworking space is in the Madison / Union Square submarket with 2.4 msf. A combination of long-term financial stress and the exogenous impacts of COVID-19 has led the major coworking providers in Manhattan to explore options to consolidate their footprint around the most profitable locations.

Prior to COVID-19, the Manhattan overall vacancy rate was forecasted to remain at 11.1% in 2020 per Cushman & Wakefield's semi-annual forecast. By the end of Q2 2020, citywide vacancy totaled 11.9%. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 120 - 210 basis points (bps).

Sublease availability in New York City during Q2 2020 reached its highest point since the GFC, measuring 12.7 msf which is 7.2% above the GFC peak of 11.8 msf reached in July 2009. Manhattan's sublet inventory increased from 3.5 msf to 11.8 msf during the GFC, and an increase in sublease availability is also expected as a result of COVID-19. This, in combination with an increase in sublease availabilities by coworking firms, is expected to push vacancies higher than initially expected in 2020.

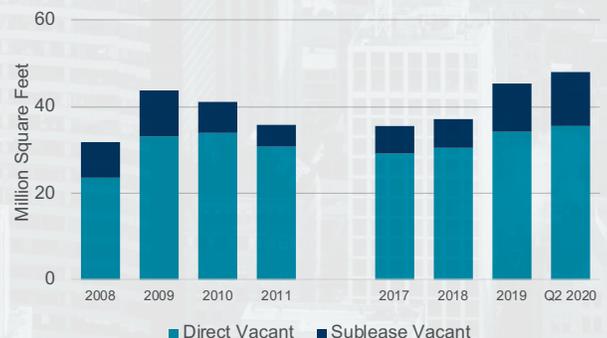
## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# NORTHERN CALIFORNIA

The Northern California coworking/enterprise flex space market totals 6.1 msf, or 1.1% of total office inventory. The region is led by three operators—WeWork (3.2 msf), Regus/Spaces (1.4 msf), and Knotel (0.8 msf)—who control 89% of coworking space in Northern California.

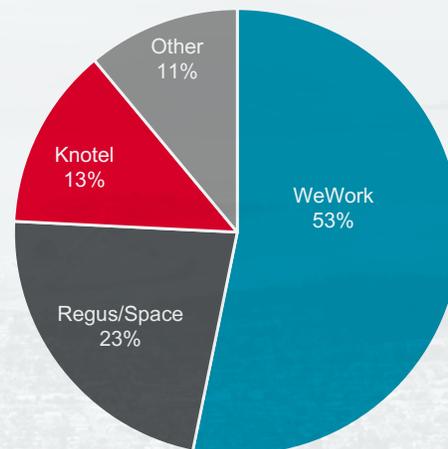
San Francisco's Stay Safer at Home Order was updated on July 20, 2020 to remain in effect until further notice. Among changes to the order, non-essential business offices must close. Additionally, some rules have eased though they don't impact coworking directly. Those changes mostly pertain to outdoor businesses and activities including outdoor dining. All construction was able to resume in mid-May along with all commercial and residential moves. Other counties in the Bay Area are moving to the next phases of opening as well. That said, requirements remain on social distancing and wearing either a face mask or cover when out. Coworking facilities will continue to be impacted as long as there are restrictions due to COVID-19. Uncertainty remains as to when office space across the city and region, including coworking, will be significantly occupied at anything close to pre-COVID-19 levels as many companies continue to allow employees to work from home.

Since 2017, coworking providers have more than doubled their footprint, increasing their market capture rate from 0.4% to 1.1% of Northern California office inventory. Although coworking space can be found all over the region, the greatest concentration of inventory is located in San Francisco (4.0 msf).

At the end of 2019, the forecast was for continued tightening of almost all the markets across the Northern California region, especially those with access to mass transit. However, by the close of Q2, vacancy rates had begun to climb in San Francisco with other areas expected to follow that lead to some extent. Asking rents have yet to readjust, though historically it has taken two to three quarters after the start of a sustained downturn in the greater economy (the dot-com recession as well as the GFC) before it is reflected in that metric. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase regional overall vacancy by 11 - 32 basis points (bps).

The benefits of pre-built (or built out), highly amenitized space will continue to attract users and any excess space due to an increase in work from home (WFH)—and after six foot office redesigns—can be placed on the sublease market. In 2009, at the peak of the GFC there was a 26% annual increase in sublease space, which a few years later was completely absorbed. Current sublease space is already at a 10-year high and further additions are bound to change the dynamics of the sublease sector—something providers will need to keep an eye on.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# ORANGE COUNTY

The coworking space market in Orange County totals 1.7 msf which is dominated by major operators WeWork (650,000 sf), Regus/Spaces (420,000 sf) and Premier Business Centers (410,000 sf). These three operators control 85.4% of the coworking space in Orange County.

The reopening of California is following a four-stage process. As of May 8, 2020, the state entered early Stage Two, where retail (curbside and delivery only), related logistics and manufacturing, office workplaces, limited personal services, outdoor museums, child care and essential businesses could open with modifications. Currently, Orange County is in line with the state guidelines. However, nearby Los Angeles has already announced an extension to their lockdown through July, which is relevant, because Orange County has generally followed the actions that Los Angeles has taken through this pandemic. Even though office workplaces are technically open at this time, several concerns remain about office environments, including coworking spaces. Workers are wary of everything from sharing space with strangers to concerns around protocols for cleaning, temperature checking and social distancing—and the last certainly diminishes one of the appeals of the coworking model.

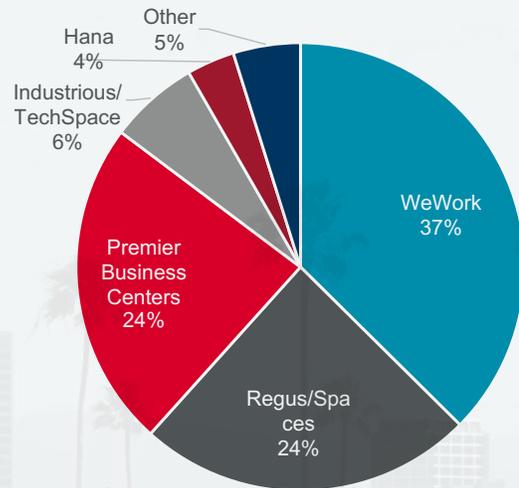
Coworking space has more than doubled since 2017. As a result, coworking space as a percentage of total inventory increased from 0.9% to 1.9% over the same period. Within Orange County, the greatest concentration of coworking space is in the Greater Airport Area submarket which is considered the CBD of Orange County. Of the available coworking space, 65.2% is located in the CBD/Greater Airport Area.

Prior to 2017, the majority of coworking space could be classified as traditional executive office space, which was primarily served by Regus and Premier Business Centers. As new product was being developed in 2016 and 2017, tenant demands for new creative office space as well as the repurposing of low-rise buildings into amenity-rich environments became a major draw to the new crop of coworking operators. This is evident in 2019 where WeWork moved into seven new locations, occupying 439,000 sf, 25% of all coworking space in Orange County.

Prior to COVID-19, the Orange County overall vacancy rate forecasted to rise to 12.5% in 2020 per Cushman & Wakefield's semi-annual forecast. By the end of Q2 2020, countywide vacancy totaled a stronger than expected 12.0%. However, this isn't expected to continue as the pandemic and the slow return back to normal is expected to increase the vacancy rate substantially in the following quarters.

By the end of Q2 2020, sublease space was at its highest point since the GFC, but still about half of the height of the GFC at 839,000 sf. Sublease vacancy is expected to continue to increase going forward.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# PHILADELPHIA

Coworking space in the city of Philadelphia<sup>1</sup> reached 1.3 msf in Q2 2020, representing 2.8% of office inventory. Coworking inventory has increased 74.2% since 2017, which is why coworking's share of the city's total office inventory has increased one-and-a-half times during this period. The three largest coworking operators are WeWork, with 218,000 sf across five locations; Regus/Spaces, with 200,000 sf across six locations; and Cambridge Innovation Center, with 126,000 sf in one location. Together, these operators represent 42.6% of all coworking inventory in the city of Philadelphia. Additionally, five coworking tenants signed 153,000 sf of leases that were slated to open later in 2020. These opening dates may be pushed back given construction delays related to statewide COVID-19 construction restrictions, which were lifted on May 1, 2020.

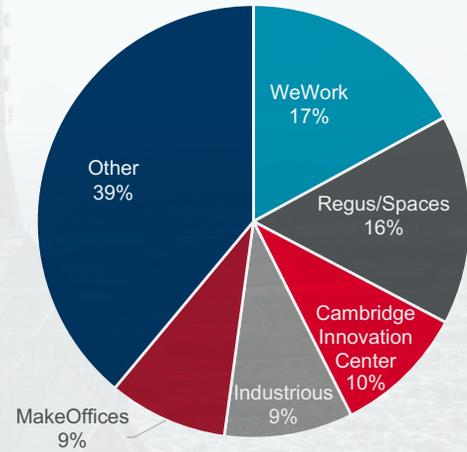
Philadelphia's Stay-At-Home order was lifted on June 5, 2020. Since all non-life-sustaining businesses were closed during the Stay-At-Home period, coworking space in Philadelphia was vacant from March to June. Since then, most, but not all, businesses could reopen, although working from home where feasible continues to be encouraged and limitations on public gatherings remain in-place. In-person retail is permissible, with curbside and delivery encouraged, but restaurants and bars will continue to remain closed as well as indoor in-person gym and theaters. Businesses that reopen with in-person operations must follow strict safety guidelines in terms of social distancing and cleaning, and employees must wear masks at all times, impacting the day-to-day operations and physical layouts of coworking spaces in Philadelphia.

Vacancy over the past three years has been on a downward trajectory in the city of Philadelphia, reaching 9.3% in Q1 2020. This trend was driven by limited new construction in tax-incentivized areas outside the CBD paired with new in-bound demand and organic growth from tenants in the market, resulting in demand outpacing supply. While coworking represents less than 3% of inventory, coworking tenants were responsible for more than 440,000 sf of positive absorption in 2018 and 2019, or 17.2% of net absorption during this period. With coworking operators likely halting any future expansion plans in response to COVID-19, absorption and vacancy will be impacted, as this sector has become an important driver of leasing activity for the city of Philadelphia in recent years. Additionally, a significant increase in coworking vacancy to the level of 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 80 - 133 basis points (bps).

In 2009, at the peak of the GFC, there was a 30% annual increase in sublease space in the city of Philadelphia, which was almost all absorbed by the end of 2010. Current sublease space is 213,000 sf less than it was at the end of 2008 and represents 6.8% of overall market vacancy.

<sup>1</sup> This includes office inventory in the CBD, University City and the Navy Yard

## Occupancy By Provider\*



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



\* City of Philadelphia

# RALEIGH-DURHAM

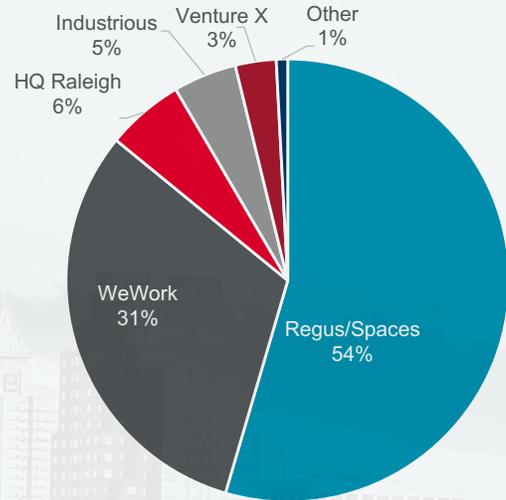
Once dominated by small and local providers, the landscape of the Triangle's coworking market has undergone a dramatic transformation over the last several years. Much of this growth can be attributed to major providers such as WeWork and SPACES, which began tapping into the market in early 2018. They have since leased a combined total of 402,000 sf of space and, as a result, the Triangle's coworking inventory has increased by an astonishing 114% since 2017. Currently, IWG (Regus/Space) is the area's largest provider with more than 51% of coworking inventory, totaling 403,000 sf of space. WeWork is the second largest provider with roughly 232,000 sf of space, a 29% market share. Despite the recent uptick in coworking spaces, the overall sector only accounts for 1.3% of Raleigh-Durham's total office market inventory.

As the effects of COVID-19 started to rapidly spread throughout the U.S., North Carolina responded with widespread shutdowns of non-essential businesses and social distancing requirements that started on March 30. With many of these businesses closed, most, if not all, coworking space has been sitting vacant during the current pandemic. As North Carolina begins to slowly reopen during its initial Phase One, we will likely see some of these businesses return to work. Unfortunately, most of these businesses will not until further restrictions are lifted in the coming weeks and months.

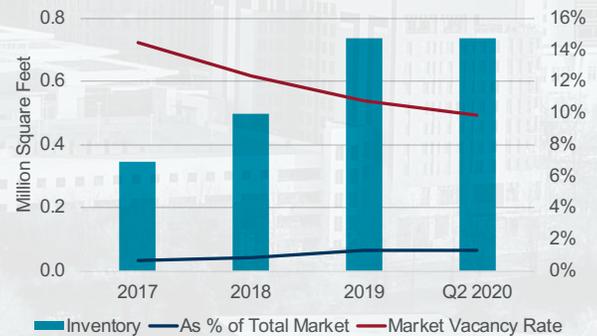
The Triangle's largest concentration of inventory is located in the CBDs. Downtown Durham and Raleigh account for 28% and 26% of the market share, respectively. Followed by North Raleigh at 19% and RTP at 13%.

Even in the wake of COVID-19, the Triangle's office market fundamentals remained strong through the end of Q2 as vacancy declined 90 basis points (bps) through the first half of the year to 9.9%. Sublease availability levels remain unchanged but are expected to increase due to shutdowns and social distancing restrictions. Much of the area's coworking space remains offline, as businesses sit back and wait to see what happens.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# SAN FRANCISCO

The coworking/enterprise flex space market totals 4.0 msf, or 4.8% of citywide office inventory. The market is led by three operators—WeWork (2.1 msf), Knotel (805,000 sf) and Regus/Spaces (500,000 sf)—who together control 87% of the space in San Francisco.

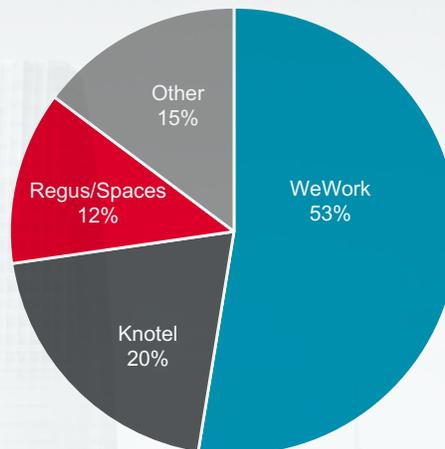
San Francisco’s Stay Safer at Home Order was updated on July 2020 to remain in effect until further notice. Among changes to the order, only essential businesses and specifically listed industries will be allowed to reopen in cases where telecommuting is not feasible. All construction was able to resume in mid-May along with all commercial and residential moves. That said, requirements remain on social distancing and wearing either a face mask or cover when out. Coworking facilities will continue to be impacted as long as there are restrictions due to COVID-19. Uncertainty remains as to when office space across the city and region, including coworking, will be significantly occupied at anything close to pre-COVID-19 levels as many companies continue to allow employees to work from home.

Since 2017, coworking providers have doubled their footprint, increasing their market capture rate from 2.2% to 4.8% of San Francisco office inventory. Although coworking space can be found all over the city, the greatest concentration of inventory is located in the CBD.

Prior to the pandemic, the citywide overall vacancy rate was forecasted to fall to 5.2% in 2020 per Cushman & Wakefield’s semi-annual forecast. By the end of Q2 2020, citywide vacancy totaled 9.9%. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 106 - 201 basis points (bps).

The benefits of pre-built (or built out), highly amenitized space will continue to attract users and any excess space due to an increase in work from home—and after 6 foot office redesigns—can be placed in the sublease market. In 2009, at the peak of the GFC, there was a 54% annual increase in sublease space, which a few years later was completely absorbed. Current sublease space is already at a 10-year high—something providers will need to keep an eye on as further additions are bound to change the dynamics of the sublease sector.

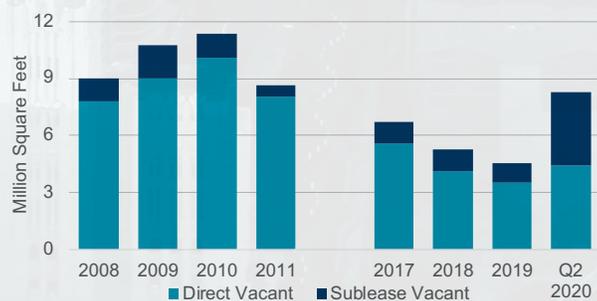
## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# SEATTLE

The coworking/enterprise flex space market totals 2.13 msf, or 2.2% of citywide office inventory. The market is led by three operators—WeWork (1.4 msf), Regus (300,000 sf) and Spaces (125,000 sf)—who together control 87% of the space in the Seattle MSA.

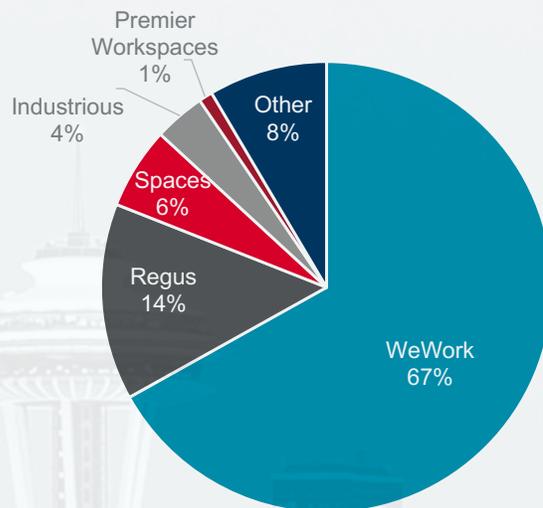
King County’s COVID-19 reopening plans were paused on July 1 because of a spike in cases. King County is currently in Phase Two of four in the reopening process. Most retail and office space has been partially reopened with restrictions in Phase Two. Coworking space is expected to continue to sit mostly vacant through most of Phase Two while companies expect most employees to continue working from home. However, Phase Two allows restricted professional services, making coworking space a great short-term solution for clean and properly distanced office space. However, working from home will be strongly encouraged until Phase Four, which leads to very flexible terms in the tech dominated market. Until business returns to normal, remote working might limit coworking deal volume. And for deals that get completed, they may be characterized by shorter terms.

Since 2017, coworking providers have nearly tripled their footprint, increasing their share of Puget Sound office inventory from 0.8% to 2.2%. Although coworking space can be found all over the metro area, the greatest concentration of inventory is in the Seattle CBD, followed by the Bellevue CBD. WeWork recently backed out of a full building deal at Third & Lenora—a large pullback from the top coworking company in the market.

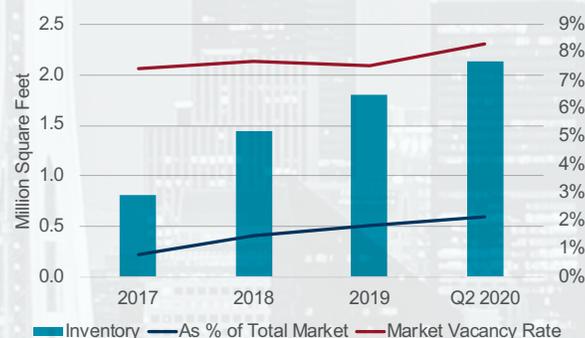
Prior to the pandemic, the citywide overall vacancy rate was forecasted to rise slightly to 7.8% in 2020 per Cushman & Wakefield’s semi-annual forecast from 7.6% at year-end in 2019. By the end of Q2 2020, citywide vacancy totaled 8.3% because of the increase of sublease space that came to market primarily in the Seattle CBD. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 64 - 106 basis points (bps).

The benefits of pre-built (or built out), highly amenitized space will continue to attract users. After 6-foot office redesigns, any excess coworking space due to an increase in work from home can be placed in the sublease market. In 2009, at the peak of the GFC, there was a 37% annual increase in sublease space, which less than a year later was completely absorbed. During the second quarter, the Seattle CBD had over a 132% increase in available sublease space and the Bellevue CBD had over 30% increase in available sublease space. With a robust development pipeline in the Seattle MSA and a freeze in reopening, it is unlikely all the new space brought to market will be absorbed in less than a year.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# WASHINGTON DC NORTHERN VIRGINIA

There are currently 30 coworking companies operating across the District of Columbia (DC) and Northern Virginia, occupying 4.7 msf of space—or 1.4% of total office inventory. While the majority of coworking space can be found in DC (3.1 msf), Northern Virginia accounts for 31.7% of coworking's footprint in the metro region, or a total of 1.6 msf of space which is 1.2% of Northern Virginia's total office inventory. Coworking industry leasing has averaged 800,000 sf of new leases per year since 2016. The East End and Tysons Corner submarkets continue to lead new leasing activity with 1.1 msf and 484,000 sf of deals inked.

Coworking providers have committed to areas throughout DC due to the broad demand for, and visibility of, the nation's capital. Within the region, DC proper holds 61% of the coworking space—and the core submarkets of East End and the CBD lead the way with 39% and 32% of coworking space in those markets, respectively. Since the beginning of 2019, East End has added more than 500,000 sf while the CBD has added more than 600,000 sf.

The core submarkets of Northern Virginia (Tysons Corner, Rosslyn-Ballston Corridor and Reston/Herndon) have the most coworking space in the region—understandable given they are also the submarkets with the heaviest tech and startup focus. However, Old Town/Alexandria has the highest percentage of its inventory dedicated to coworking at 2.4%. On the other end of the spectrum, the Crystal City/Pentagon City submarket currently holds the lowest at 0.4%, but that percentage could increase when Amazon moves into its new headquarters.

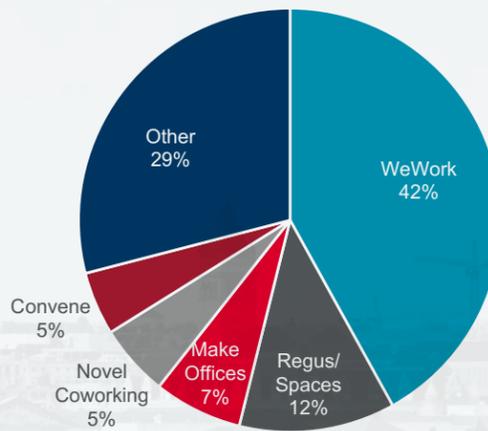
The monumental growth the DC metro area experienced in the coworking sector first began to decelerate in late 2019 when several providers halted future expansion plans. Now these initiatives have all shut down for the foreseeable future, and coworking leasing has ground to a halt due to issues surrounding the COVID-19 pandemic.

Sublease inventory in Downtown DC began trending higher at the beginning of 2020, and it measured roughly 2.8 msf (2.5% of inventory) in June 2020, up from 2.0 msf in Q2 2019. Sublet absorption drove the majority of positive absorption (250,000 sf of positive net absorption) in Q1 2020 despite negative overall absorption. In Q2 2020, the story flipped as sublease space drove the majority of negative absorption (-198 sf). The type of space that has been put on the market has generally been high quality such as former law firm space put back due to mergers, unoccupied coworking space, and new construction space that wasn't occupied. Quality space at a relative discount to market is leasing well and keeping overall sublease availability in check.

The Northern Virginia market has about 1.1 msf of sublease space on the market (0.8% vacancy rate), down 50,000 sf from Q1 2020 (0.9% vacancy rate). There have not been any significant subleases signed in the second quarter of 2020. However, several large sublease spaces have been added to the market in the past month, including 49,094 sf at 2300 Wilson, suggesting sublease vacancy rates might tick upward as the year continues. The sublease spaces that have been added to the market since the beginning of Q2 2020 are in Class A product mainly in the Courthouse/Clarendon/ Virginia Square and Tysons submarkets.

## WASHINGTON DC

### Occupancy By Provider



### Coworking Inventory & Overall Vacancy

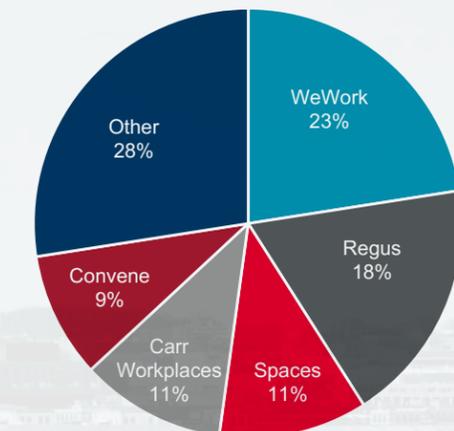


### Historic Sublease Vacancy



## NORTHERN VIRGINIA

### Occupancy By Provider



### Coworking Inventory & Overall Vacancy



### Historic Sublease Vacancy



# CANADA

A photograph of an outdoor cafe at night. The scene is illuminated by warm, orange-toned string lights hanging from a large, draped canopy. In the foreground, a person is seated at a table, looking down at a laptop. The background shows other tables and chairs, with a blurred figure of a person standing. The overall atmosphere is cozy and inviting.

# MONTREAL

WeWork and IWG have the largest presence in Montreal's 1.1 msf coworking market. WeWork currently occupies approximately 260,000 sf in downtown Montreal, with committed growth of 64,500 sf by Q4 2020. IWG, which embraces the traditional coworking model under the Regus and Spaces operating names, has a footprint of about 225,000 sf across the Greater Montreal Area. While WeWork is more focused geographically, IWG provides wider geographical coverage. The remainder of the coworking space in Montreal consists of smaller coworking operators.

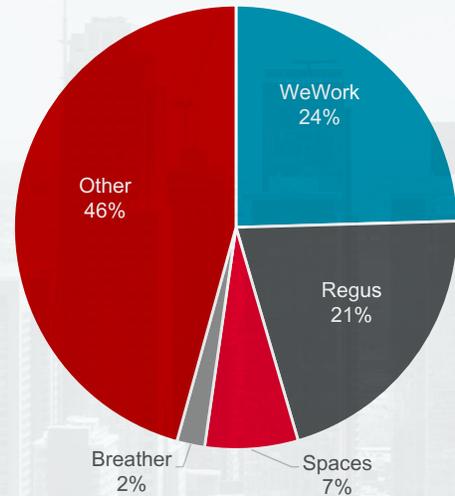
While Montreal inhabitants are cautioned to remain home, shutdown measures have begun to lift, and businesses have begun to gradually reopen. On May 11, Montreal's Phase One saw restrictions partially lifted within construction and manufacturing industries, allowing work to resume while retaining strict physical distancing guidelines. The Quebec government had given street front retail outlets the green light to reopen May 25, and now other retail locations, along with malls, have followed suit. Phase Two of the reopening plan commenced on June 22 and embraces professional services providers and the gradual re-integration of office-based workers.

Strong coworking growth has doubled this sector's footprint in the last five years. Since 2016, WeWork has opened three locations, IWG introduced their Spaces concept, and many independents brought unique coworking offerings to the market. The greatest concentration of coworking space is in the Central Area (Financial Core, Downtown South, Downtown East). The Midtown Central submarket is also seeing coworking growth due to a high concentration of technology sector businesses, including those focused on digital arts, video gaming and artificial intelligence.

Prior to COVID-19, the Class A vacancy rate for CBD Montreal was forecasted to remain stable at 5.7% in 2020. By the end of Q1 2020, aggressive demand pushed CBD Class A vacancy to 5.0%. A significant increase in coworking vacancy to a level of 30% to 50% of coworking inventory could potentially increase citywide overall vacancy by a modest 33 - 55 basis points (bps). This is in part because the coworking sector as a percentage of overall inventory is quite modest within the greater Montreal market.

Sublet availability in Montreal was 875,000 sf in Q2 2020, having fallen as a result of strong demand prior to the impact of COVID-19. Montreal was experiencing strong expansionary growth as we moved into the recent crisis. Previously, sublease space peaked in Q2 2014 at 1.4 msf. Sublet space is expected to rise over the coming quarters.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# TORONTO

Toronto's coworking sector took off between Q4 2017 and Q1 2020, accounting for 38% of the office market growth through that period. Even so, with a footprint of 2.4 msf, coworking represents just 1.4% of Toronto's total office inventory. WeWork and Regus/Spaces are the dominant companies, occupying a combined 1.5 msf or slightly more than 61% of all coworking space in Toronto. Although providers are scattered throughout the wider Greater Toronto Area, coworking locations are mostly concentrated in CBD class A buildings.

Based on commitments in place prior to the pandemic, coworking inventory was expected to reach 3.1 msf by the end of 2022, but due to the strain placed on business by COVID-19—including the lockdown, phased openings and physical distancing requirements—coworking providers expect elevated vacancy to spill well into 2021. Toronto has proceeded with caution to flatten the curve and only allowed companies to reopen their offices citywide on a limited basis in mid-July. Tenants and their employees are weighing the many considerations of returning to the office versus continuing remote working or employing a blended workplace approach. With so much uncertainty, questions remain about the impact to coworking long-term. Decentralizing operations to suburban markets may be one solution pursued by operators to address the anxiety tenants and their employees feel about commuting into the downtown core and using public transit.

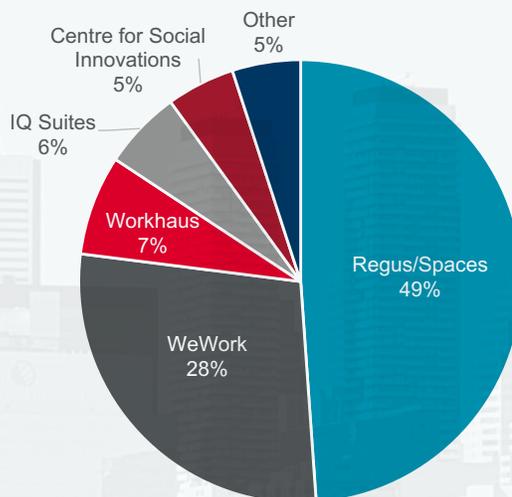
Toronto's downtown office market was on fire in advance of the pandemic. With an inventory of 74 msf and vacancy of just 1.9% (originally forecasted to notch up to 2.4% by Q1 2020), the pandemic slammed the brakes on anticipated growth. Given the coworking sector's relatively small footprint in Toronto compared to other markets in the U.S., a spike in vacancy by 30% to 50% due to the loss of smaller tenants would in reality have a limited impact on the CBD's vacancy, pushing it up by about 40-70 basis points (bps).

The strength and diversity of office growth drivers in Toronto, including a proliferation of startups and small businesses that are attracted to the coworking model, offer hope for recovery down the road. Sublease activity also supports the notion that the office market may be positioned to withstand the storm. As of Q1 2020, sublets remained 43% lower than at the peak reached during the GFC with availability averaging 1.7 msf per quarter compared with 2.2 msf per quarter during the GFC.

More tenants are expected to shed space in the coming months, which will increase sublets. However, the GTA's anticipated low availability at Q4 2020—below 7% overall and 2% downtown—will help to maintain market stability.

In response, coworking companies are actively de-densifying their space to allow for physical distancing and are taking other measures to mitigate risk for their tenants. How many of their tenants will return to work or opt to work from home going forward remains uncertain at this point.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# VANCOUVER

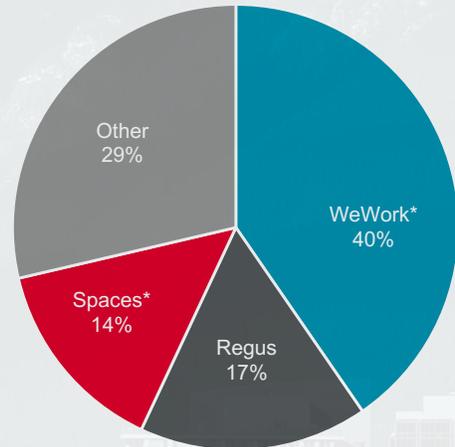
Coworking has been one of Vancouver's most rapidly growing sectors since 2017, and two major players, WeWork and Spaces, contributed more than 1.0 msf of absorption. Major providers of coworking space have primarily focused on downtown locations but have increasingly expanded into rapid transit-oriented suburban locations taking advantage of the tightest office market in the region's history. Coworking providers have had the benefit of operating in a sub 2% vacant downtown market during the past three plus years and currently make up 1.77 msf of Vancouver's 59.6 msf of inventory.

Coworking companies remained active, albeit on reduced levels, up until the COVID-19 lockdown, mostly on pre-leasing commitments executed to commence at later dates. Notably, WeWork committed to 151,000 sf without an enterprise agreement in place in the highly anticipated B6 tower set to be delivered in 2023. Active absorption began to slow in mid-2019 across all providers, potentially signifying a saturation of providers and coworking space. Activity on both a leasing and occupancy front tapered when Vancouver's work from home and social distancing guidelines were implemented. With BC's Restart Plan firmly underway, some offices are opening under enhanced protocols that align with public health and safety guidelines of social distancing and limiting the number of people in confined areas including office buildings. The impact of these policies has yet to be realized on the coworking front.

Prior to COVID-19, Metro Vancouver's vacancy rate was projected to remain unprecedentedly tight at less than 4%. In a relatively localized market, any negative pressure exerted on coworking resulting in a downsizing would have a significant impact and could account for a vacancy swing of 150 basis points (bps) should 50% of the current coworking footprint come back to the market.

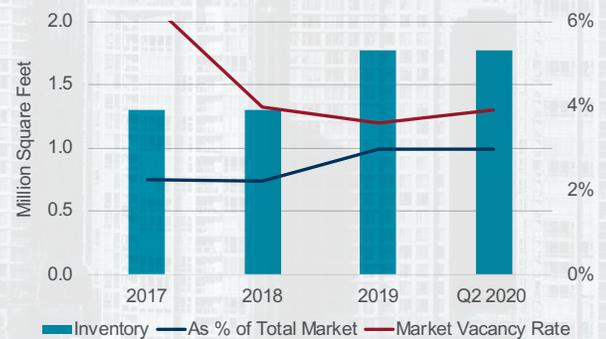
The sublease market has been historically tight throughout Metro Vancouver. The effects of COVID-19 have begun to emerge in this segment of the market with upwards of 530,000 sf becoming available on a sublease basis since March 1, 2020. Most notably, technology and education users have comprised the greatest proportion of this new sublease inventory. The increase in sublease inventory will continue to fuel the speculation that vacancy rates will rise in the near term throughout Metro Vancouver.

## Occupancy By Provider



\* Includes buildings currently under construction

## Coworking Inventory & Overall Vacancy



## Historic Sublease Vacancy



# MEXICO



# MEXICO CITY

Mexico City's coworking market dates back to the first half of the 1990s. However, it was in the last 10 years that this industry had its fastest growth. At Q2 2020, it reached close to 2.9 msf, equivalent to 2.6% of the total office inventory. Regus was already present by the year 2000 and was later followed by IOS and IZA, two Mexican firms that had a steady expansion in the last decade. However, the arrival of WeWork in 2016 had a tectonic impact. Today, WeWork is the top provider with 1.4 msf and is one of the top three largest office tenants in the city. IOS is a distant second, with 470,000 sf. In spite of the presence of a couple dozen small operators, coworking is a highly concentrated industry. The five largest firms account for 96.4% of total coworking space.

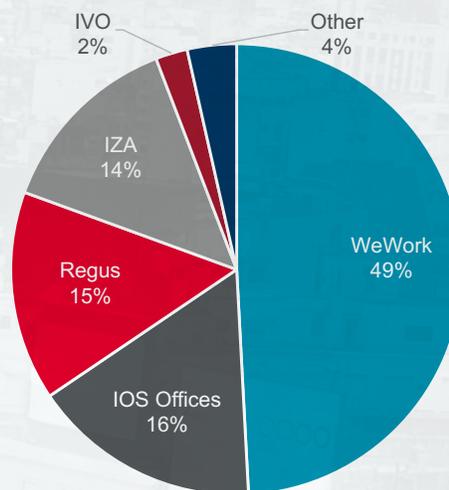
A stay home policy was put in place on April 1 and was only enforced for office the second week of that month. Most of the coworking's tenant industries have been classified as non-essential business. Currently, reopening plans have included construction and some manufacturing industries, which resumed work on July 1. A second phase, which began in mid-July, includes some office-using industries. Social distancing guidelines will continue to be enforced.

Coworking inventory has increased 33% since 2017. This means that coworking space as a percentage of total inventory expanded from 2.1% to 2.6% over that period, a 20% growth. Coworking space is present in all office submarkets, but has the largest concentration in the CBD. Polanco, Lomas and Reforma, the CBD submarkets, comprise 57% of the total coworking space. Outside the CBD, Insurgentes and Santa Fe submarkets also have a relevant coworking presence.

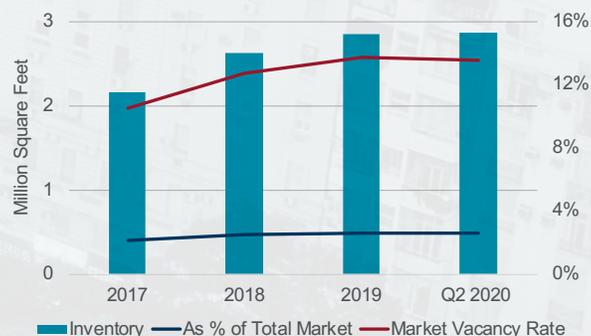
The overall vacancy rate already had an upward trend before COVID-19, following the rapid expansion of supply, the consequence of a strong construction pipeline. At 13.6% in Q2 2020, this was expected to increase by an additional 200 basis points (bps) above the forecasts before the COVID-19 lockdowns. A significant increase in coworking vacancy to a level of 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by an additional 7 - 59 bps.

Sublease availability has traditionally been limited in Mexico City, and today it only amounts to 436,000 sf. However, an increase in sublease availability is a likely result of COVID-19, adding to the additional vacancy produced by coworking.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



# SOUTH AMERICA



# BUENOS AIRES

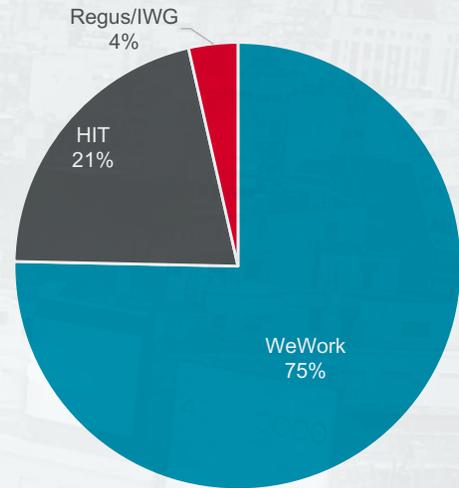
WeWork, HIT (a local company with locations in Santiago, Chile and Lima, Peru) and Regus are the primary providers in Buenos Aires with 1.21 msf. WeWork is the largest office occupier in the city with 931,153 sf and 75.3% of the flex space market's total inventory. Meanwhile, HIT and Regus have 21.4% and 3.6%, respectively. These three companies are the most important, located in Class A buildings and best positioned to meet the demands of prime companies.

Buenos Aires' social, preventive and mandatory regulation in response to the global pandemic were in place until July 17, 2020. Since non-essential businesses are closed, most coworking space has been sitting vacant during the pandemic. Some measures are beginning to ease given the return of some construction and industrial and manufacturing operations. Additionally, some retailers have been allowed to open for curbside pickup. But working from home (WFH) still remains the norm for most companies who can operate in a WFH model. The protocol for coming back to the office has not been approved by the government yet, and strict social distancing guidelines and face coverings will continue to be required in public. This essentially means that coworking members will not be returning in the near term.

Coworking/enterprise flex inventory has quintupled since 2017 to 1.21 msf. Today, coworking space represents 8% of total office inventory. While this is still not a significant figure, historic growth is something to keep in mind. The greatest concentration of coworking space is in the non-CBD area, more specifically in Palermo and Libertador's submarkets. These locations are known to be trendy, well located and desirable for innovative companies who want to retain employees—likely all factors HIT considered in its strategy to open several locations there.

Although it is still difficult to evaluate the impact of COVID-19 in the market, we believe that coworking spaces would be more affected than traditional office landlords, because in many cases, their occupants are entrepreneurs and startups that may not be able to weather the downturn as well as larger corporations. Additionally, even though members benefit from lower entry costs and little up-front investment, the monthly costs are significantly higher than a traditional office model.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



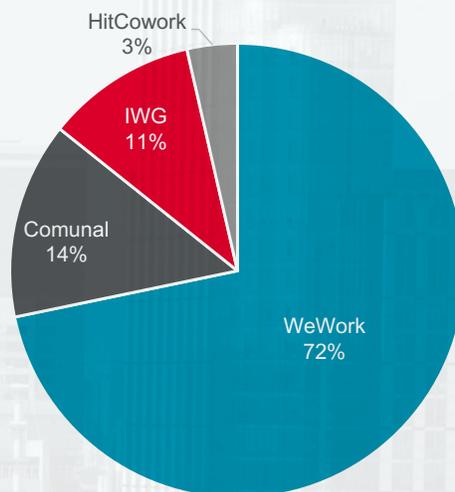
WeWork, Comunal, and IWG (which includes Regus and Spaces) are the primary providers in Lima. The coworking/enterprise flex space market is comprised of 1.07 msf. WeWork is the largest office occupier in the city with almost 770,000 sf of space, 71.7% of the total inventory of coworking space and 4.4% of the office market's total inventory. The other main providers—Comunal (150,000 sf) and IWG (114,000 sf)—occupy 1.5% of the total Class A office inventory. HitCowork is a coworking company that recently began operations in 2019, with only one location.

The quarantine period enforced by the government ended on June 30, 2020. Since July, free transit has been allowed, and this new period of mobility linked to the reactivation of the economy that began a few months ago will allow the progressive return of companies to offices under certain health standards. In doing so, working environments must accommodate their capacity and distribution to the strict mandatory rules. In this way, coworking companies, like other work environments, have had to adapt and provide the security that their customers request, introducing some changes.

Coworking companies increased their inventory six fold since 2017. WeWork had a strong impact on this growth during 2018 (87% of the total yearly coworking expansion), mainly due to the high levels of vacancy (over 20% as of Q4 2017) and the availability to rent entire new office buildings or large spaces that are the main demand for this kind of company. These primary coworking companies have inventory in the main Class A office submarkets of San Isidro Financiero, San Isidro Empresarial, Miraflores, Santiago de Surco and Magdalena del Mar. San Isidro Financiero, a zone with the highest concentration of local and foreign companies, has almost 40% of the total inventory of coworking space.

Prior to the start of the COVID-19 pandemic, the expansion of the coworking companies was mainly driven by the availability of large spaces for lease. That expansion has stopped, and only contracts that had already been negotiated or accepted will continue. Other potential deals will likely be pushed and analyzed for next year, given the high probability that vacancy will increase as the return to the office expands further.

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



# RIO DE JANEIRO

The coworking/enterprise flex space market totals 524,359 sf, or 0.7% of citywide office inventory (all classes). The market is led by three operators—Regus/Spaces (273,593 sf), WeWork (157,002 sf) and Studio Coworking (34,735 sf)—who together control 88.7% of the flex/coworking market share in the metro area.

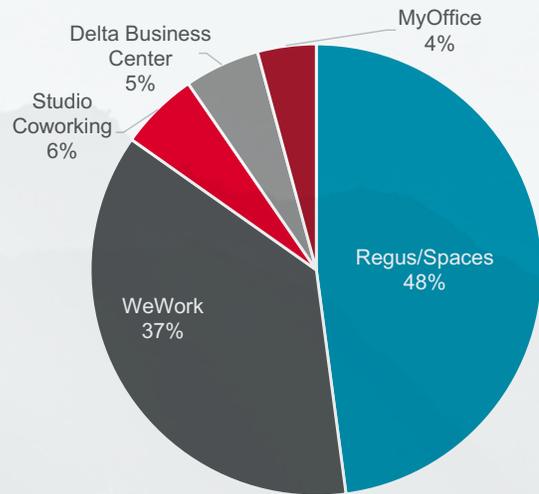
The quarantine decreed by the government of Rio de Janeiro started on March 24, 2020. The quarantine period has been extended in phases, following the advance of the virus. With all non-essential businesses closed, most flex/coworking space has experienced higher vacancy rate during the pandemic. The usual short-term contracts have become an issue. While this type of contract is great for flexibility and short-term notice by small and mid-size enterprises, the model does not guarantee long-term cash flow for flex/coworking players.

On a positive note, startups, one of the main coworking space users, were designated by the federal government as an essential service on April 29. Even with this measure, the vast majority of companies are following the WHO recommendations and working from home.

Since 2017, coworking providers have grown their footprint, increasing their market share of Rio de Janeiro office inventory (all classes) from 0.5% to 0.7%. Although coworking space can be found all over the city, the greatest concentration of inventory is in the CBD, primarily located in the Centro major market with 301,173 sf or 57.4% of coworking/flex inventory.

Before the pandemic, the citywide CBD Class A and A+ vacancy rate was forecasted to fall to 27.7% in 2020 per Cushman & Wakefield's semi-annual forecast. By the end of Q2 2020, citywide CBD Class A and A+ vacancy totaled 33.39%. Furthermore, a significant office space devolution by 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 21 - 35 basis points (bps).

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



# SÃO PAULO

The coworking/enterprise flex space market totals 2.9 msf, or 1.8% of citywide office inventory, including all classes. WeWork (1.7 msf), Regus/Spaces (449,423 sf) and Cubo Coworking (193,750 sf) are the leading players, controlling 80% of the São Paulo coworking market.

The quarantine decreed by the government of São Paulo started on March 24, 2020. Following the advance of the virus, the quarantine period has been extended in phases. With all non-essential businesses closed, most flex/coworking space has experienced higher vacancy rate during the pandemic. Like in Rio de Janeiro, the typical short-term contracts of the coworking model have become problematic for operators. While the model offers great flexibility for small and mid-size enterprises through the ability to give short-term notice, it puts pressure on long-term cash flow for flex/coworking players.

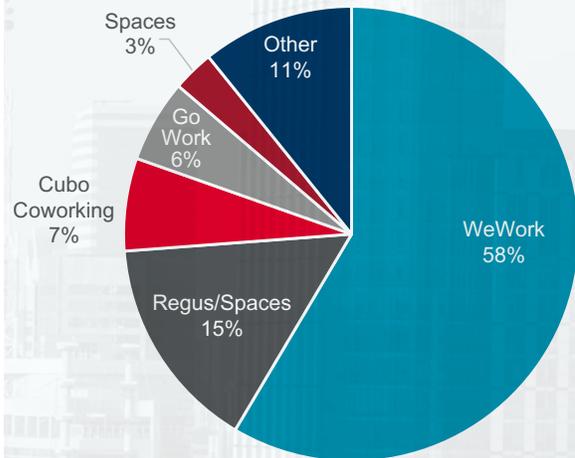
In a positive announcement for the coworking sector, startups, one of the main coworking space users, were designated by the federal government as an essential service on April 29. The majority of companies are following the WHO recommendations, however, and having their employees working from home.

Even though it does not apply directly to coworking, it is worth emphasizing that civil construction activities are considered an essential service by the government and most construction companies continue to operate. Furthermore, they have implemented extra care and sanitary protocols to keep the workstation and employees safe.

Since 2017, coworking providers have almost tripled their footprint, increasing their market capture rate from 0.7% to 1.8% of total Sao Paulo office inventory (all classes). Although coworking space can be found all over the city, the greatest concentration of their inventory is in the CBD, primarily located in the Paulista and Faria Lima major markets with 951,152 sf.

Cushman & Wakefield's semi-annual forecast, prior to the pandemic, estimated the citywide CBD Class A and A+ vacancy rate would fall to 16.2% in 2020. By the end of Q2 2020, however, citywide CBD Class A and A+ vacancy totaled 18.2%. Furthermore, a significant office space devolution by 30% - 50% of coworking inventory could potentially increase citywide overall vacancy by 54 - 89 basis points (bps).

## Occupancy By Provider



## Coworking Inventory & Overall Vacancy



## ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

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