



The Future of Coworking?

WHITE PAPER

Drew Jones, PhD
Founding Partner,
OpenWork Agency

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Address

OpenWork Agency, LLC
2400 E Cesar Chavez St Suite 208
Austin, TX 78702
United States

Voice & Mobile

Free Toll: +1 888 884 6370
WhatsApp: +1 512 636 1887

Online

Email : hello@openwork.agency
Website: <https://openwork.agency>

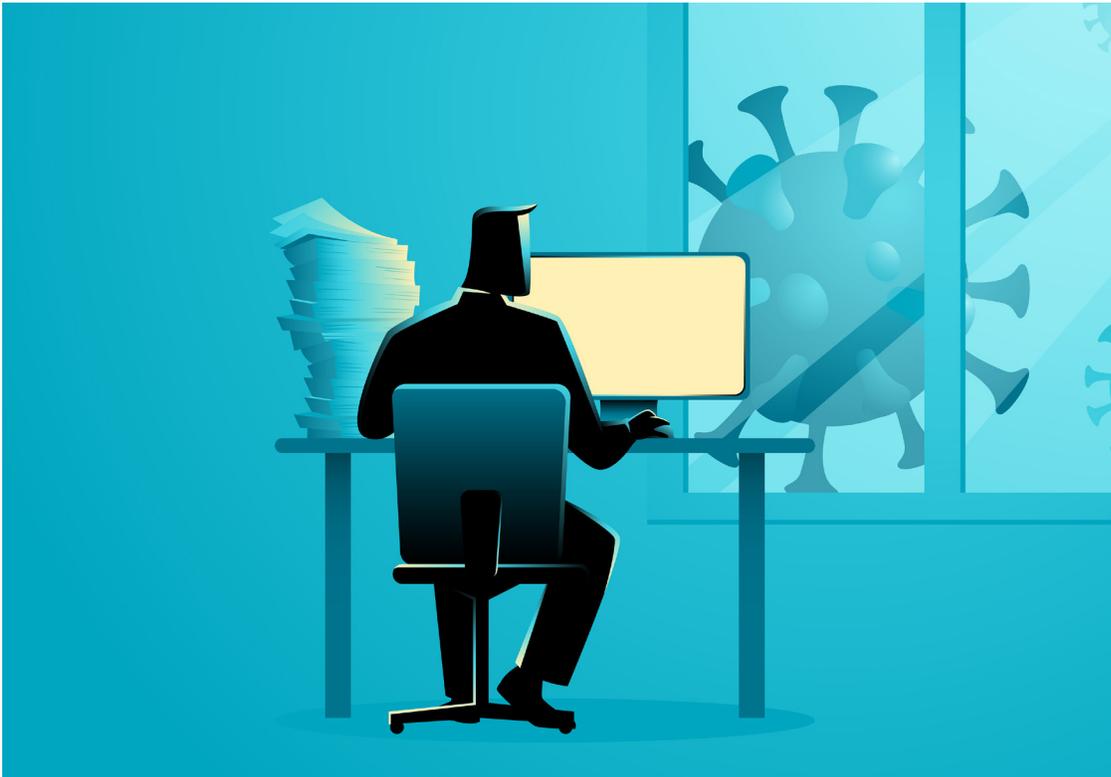
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Executive Summary



Over the past several months of the Covid-19 crisis much has been written about the potential demise of the coworking industry.

Likewise, others have suggested that the mass adoption of remote working will actually benefit the coworking industry as more people become accustomed to working away from the office. It is too early to know with any certainty what the coworking industry will look like in the future, but there are economic and behavioral factors that we can look at to guide our understanding of what might happen.

In this white paper we look at the challenges that the coworking industry faces in light of the current crisis, and provide three scenarios that explore what might unfold in the coming years. Each of the three scenarios will require adaptation and innovation among coworking operators, some more than others. What is certain is that the long revenue drought will mean a shake-out in the industry, where some percentage of operators will likely not survive into a post-Covid period. The analysis and guidance presented here is not presumed to be definitive or final, but rather the perspective of our firm at this particular point in time.

Introduction

\$26B

Global Industry. From 2006 to today coworking has grown from a single community-space in San Francisco into a \$26B global industry.

35,000 spaces

Globally to date. According to a recent count, there are around 35,000 coworking spaces in the world, operating around 521 million square feet of space.

521 million sq ft.

Coworking Space Under Management.



Our perspective of the current crisis is based in thirteen years of experience in the coworking industry. As former operators during the first years of the coworking industry, as well as academic researchers and now as coworking consultants, we have been present throughout the entire history of the industry. It has been a privilege to be a part of that journey, particularly in the early years of the coworking movement, when it was a relatively small community of entrepreneurs where everyone knew everyone.

From 2006 to today coworking has grown from a single community-space in San Francisco into a \$26B global industry. According to a recent count, there are around 35,000 coworking spaces in the world, operating around 521 million square feet of space.(1) Many of these are small operators, and there are probably three dozen major operators with truly national or international footprints. Collectively, though, coworking operators have created a bona fide global industry in a relatively short period of time.

Recent research by CBRE suggests that while only around 1.8% of office space in US major markets is currently managed as coworking space, that number is expected to increase to around 13% by 2030. At that point around 600 million square feet will be dedicated to coworking.(2) By any measure these are significant numbers. That is, leading up to the Covid-19 crisis, coworking worked its way into the mainstream of the officing industry. As of January of 2020 the industry hit its historic peak and had much to be proud of.



Before coworking spaces there were coworking meetups at coffee shops across the world. This event series was called Jelly and it was the catalyst for opening the first coworking spaces. Pictured above is a Jelly meetup in Austin (Feb 2008).

Coworking's Density Problem

Even with the industry hitting its historic peak in January Of 2020, the Covid-19 public health crisis has triggered an existential crisis for the coworking business model.



Arbitrage Business Model

The holy grail of an effective coworking pro forma is revenue per square foot (RSF). Operators lease a space for X amount, charge their members Y amount, and collect the difference after the cost of operations.

Long gone are the days when coworking consisted of a loose mix of friends sharing the rent in order to work in the same space. Thanks to the vision and execution of firms like WeWork, Industrious, Convene, Knotel, Bond Collective, Workbar, Venture X, Spaces, and others, coworking thrives as an industry because of a rent arbitrage business model. Operators lease a space for X amount, charge their members Y amount, and collect the difference after the cost of operations.

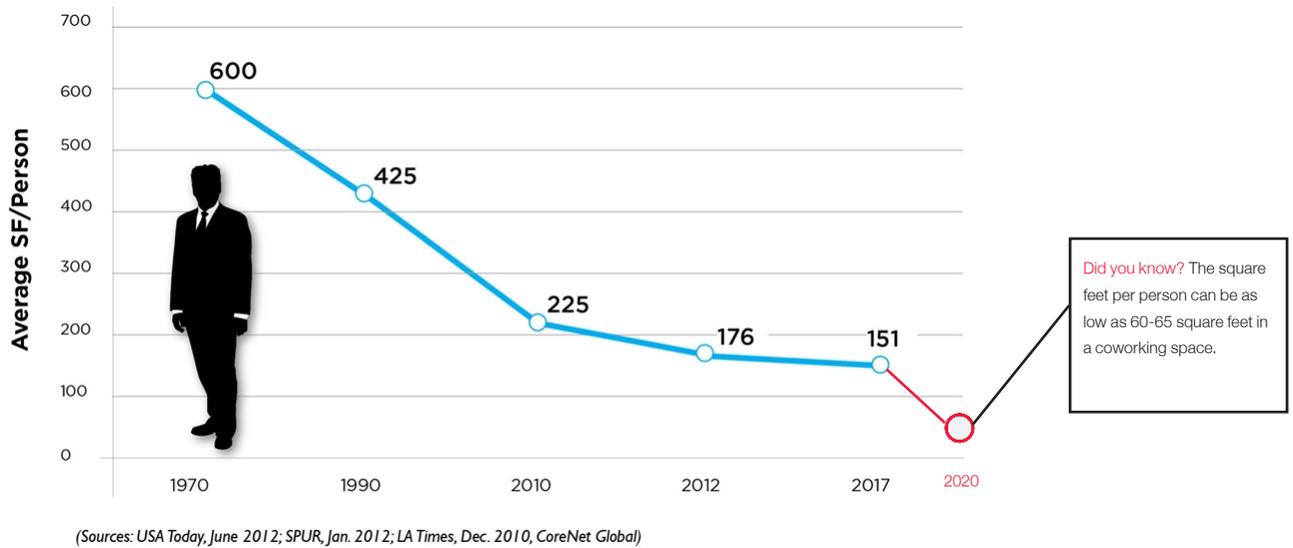
This has evolved somewhat as a few operators have shifted to a 'management model' where they partner with asset owners rather than leasing from them, making up the difference through a revenue sharing agreement. And in a few cases operators are buying their own buildings. This changes the economics significantly, but these arrangements are relatively rare. The myriad forms of value provided by a well-managed coworking space- community, convenience, flexibility, design, energy,

opportunity- make the coworking premium (the difference between X and Y) worth it for many people. The industry was built upon this premise.

The problem at the heart of the arbitrage business model is density. The holy grail of an effective coworking pro forma is revenue per square foot (RSF). It must be in a rent arbitrage arrangement. At the design phase of a project it is imperative that you figure out a way to pack in as many desks and seats as possible. Over time the square feet allocated per person has decreased significantly from what was once the corporate norm.

Prior to the growth of the shared workspace industry, corporate employees were allocated anywhere from 250-150 square feet, depending on where you were situated in the company hierarchy. The evolving open-plan office also contributed to the shrinking footprint per worker. As the density requirement within coworking became more clear, those footprints shrunk as needed, reducing them

+ The Future of Coworking?



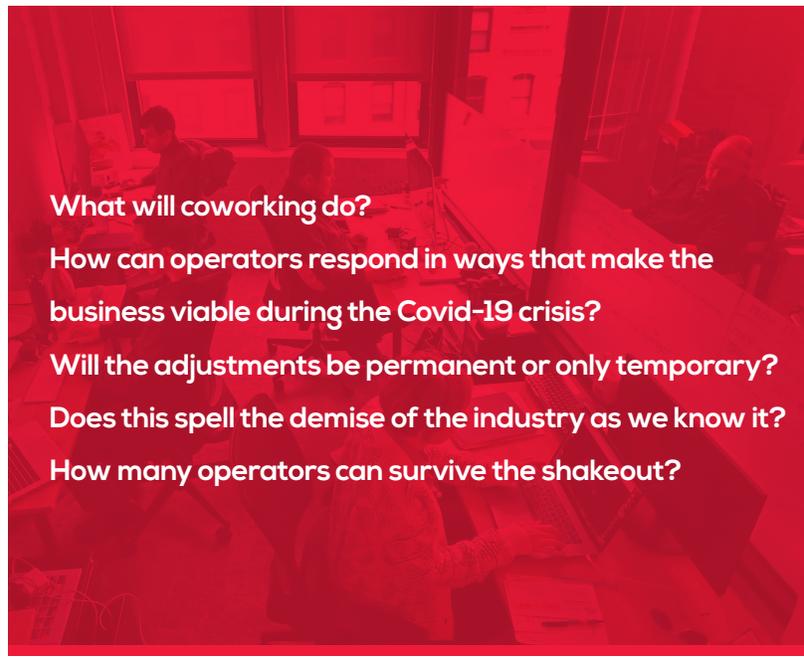
steadily over time. In some private offices in coworking spaces the footprint is down to 40-45 square feet per person. This is especially the case in the larger offices, where the sardine effect has been fully realized.

socially. Indeed, this promise lies at the heart of the coworking value proposition.

Unfortunately, these same factors that make coworking attractive as an offering and viable as an industry are now its Achilles heel. The density that lies at the heart of the coworking experience now appears to be that of a virus superspreader site such as a choir rehearsal. Yet if you simply respond by reducing the density of users to meet the requirements of social distancing (i.e. the 6 ft office), then revenue falls through the floor and the business is under water.



In the relatively little remaining open work areas in coworking spaces, set aside for hot desking and dedicated desks, the density issue is equally problematic. Forty five to 60 square feet per person is common in these areas, and promotion of community in other common areas (kitchen, lounge, soft seating) is premised on the idea that lots of people will gather



- What will coworking do?**
- How can operators respond in ways that make the business viable during the Covid-19 crisis?**
- Will the adjustments be permanent or only temporary?**
- Does this spell the demise of the industry as we know it?**
- How many operators can survive the shakeout?**

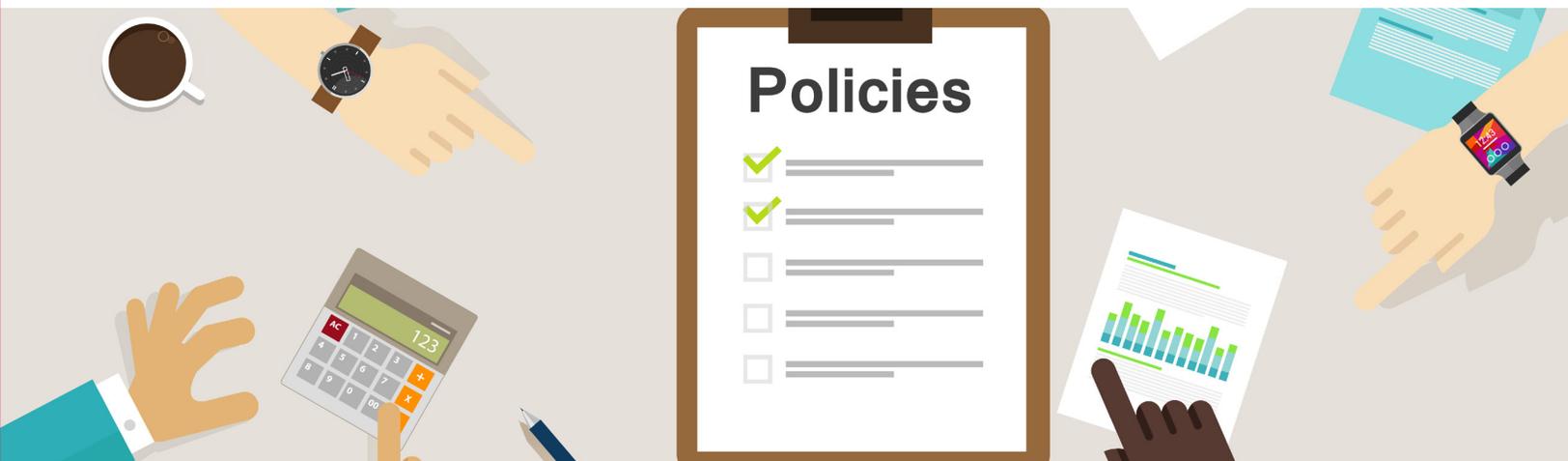
The Initial Response

For the most part, the initial response from operators has been quick and effective. Most of the major operators- WeWork, Industrious, Convene- have published 'Return to Work' playbooks that outline the steps that are being taken to ensure members' safety when they finally do return to the office.

Following is a summary list of the types of steps being taken. Note that the 'density problem' is being explicitly addressed.

- » Use of every other seat in common areas and meeting rooms
- » Use of every other seat in some of the offices
- » Implementation of the '6 foot office' usage pattern
- » 50% occupancy goals
- » Regular cleaning (during the day and overnight)
- » Rules for bathroom use (one in, one out, etc)
- » Circulation guidelines aided by wayfinding signage
- » Entrance and exit protocols
- » Erecting screens/dividers where possible
- » Installing hand sanitizers throughout a space

There is no doubt that these measures will help in keeping members safe. This is really the least that can be done. However, it does not address the RSF question in any sustainable way. Such measures will ultimately be effective only if the impact of Covid is short lived and things return to 'normal' relatively soon.





Three Scenarios

01



COWORKING GROWTH ACCELERATES

02



SOCIAL DISTANCING BECOMES A NORM, BUT...

03



**COWORKING SURVIVES BY BECOMING AN
EXTENSION OF THE CORPORATE WORKPLACE**

In this section we explore **three possible scenarios** that might unfold in the coming months-to-a-year. We don't have a crystal ball, and this is just our point of view. However, as we suggest in what follows, to some extent this depends on the long-term efficacy of a Coronavirus vaccine.

01


**SCENARIO ONE:
COWORKING GROWTH ACCELERATES**

In the event that the efficacy of a vaccine is high, in either the short term or mid-term (perhaps 6-18 months out), prospects for the industry look quite favorable. **The near-overnight embrace of remote working by millions of workers has demonstrated to companies and employees that remote work can be effective.** As companies run the numbers on the costs of their current real estate commitments, and weigh that out with increases/decreases in worker productivity, the post-Covid environment could potentially be hugely beneficial to the industry.

In an interview in Social Workplaces magazine, Baptiste Broughton of Neo-Nomads in France suggests that

going forward **around 15% of remote workers in Europe are likely to 'opt for coworking.'**⁽³⁾ If this turns out to be the case, then coworking operators will pick up more business and the industry is likely to catapult out of the crisis into a new stage of growth.

Even though there will be a small shakeout of operators during the wait for an effective vaccine, the emergency measures currently being proposed (see list above), will shelter most operators from disaster and enable them to emerge stronger than ever. In this scenario the core coworking business model will stay intact and the Covid crisis will turn out to be a bump in the road turned-into a growth opportunity.

02


**SCENARIO TWO:
SOCIAL DISTANCING BECOMES A NORM, BUT...**

If the vaccine is not sufficiently efficacious, and turns out to be more like the annual flu vaccine, then it is likely that the new social distancing rules will become the new norm. This will include the need to operate spaces at roughly 50% occupancy, following all the various distancing, wayfinding, and hygiene guidelines mentioned previously. Such a situation would significantly challenge the existing coworking business model.

If operators are required to function at 50% capacity, then the standard business model will need to be aggressively supplemented. This could take several forms. New business services could be added to the mix, whether that is administrative, legal, or financial support for small businesses. Additional hours could be added to the weekly calendar, where some users have more access to the space during evening hours or on weekends.

Operators could possibly also open marketplaces where they market and sell the services of their members, from which they take a small cut. Other people

will have more and better ideas than these, but the need for additional revenue to offset the lower density will become part of the business model challenge going forward.

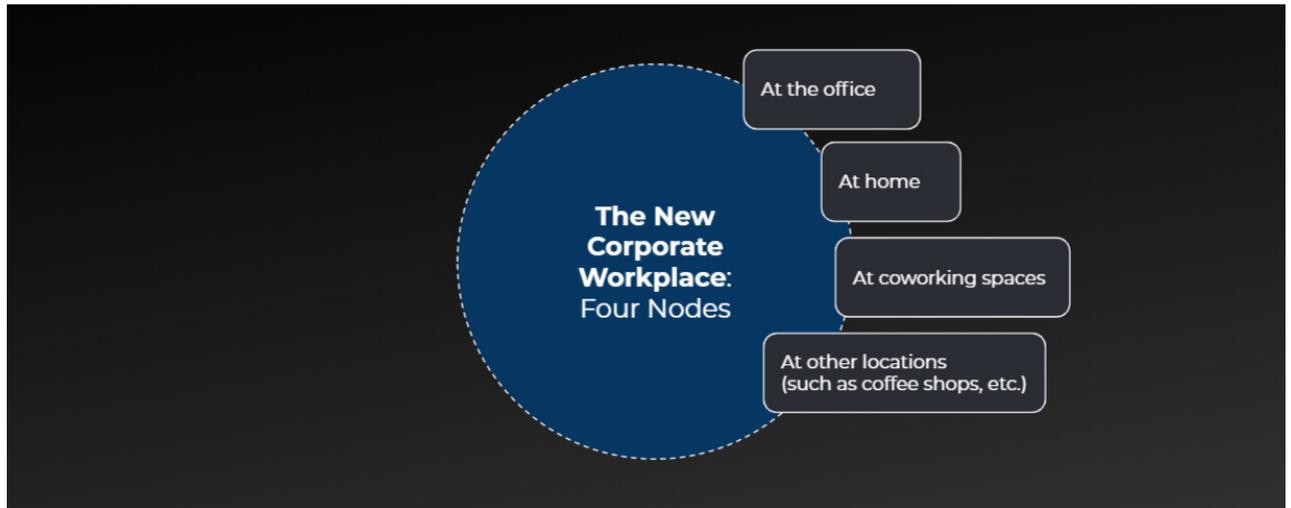
It is difficult to see how these additional revenue streams can add up to be sufficient, but such is the challenge of innovation. This scenario will test the community foundation of the coworking experience and business model. That is, one of the core premises of the business is that members participate for more than just space. They are part of a community. **It would seem that, if operators are forced to innovate new and more proactive services for members, there is the potential for industry-wide renewal around business services beyond the simple rent arbitrage equation.**

In this scenario, there would be a much larger industry-wide shakeout. It would also be an inflection point for innovation and differentiation for those operators who come up with winning ideas. Convene, for example, which already has diversified across events and catering, coworking, and now real-estate tech, would be an example of a firm that is well positioned to innovate in this way.

03



SCENARIO THREE: COWORKING SURVIVES BY BECOMING AN EXTENSION OF THE CORPORATE WORKPLACE



The final scenario is the most dramatic and controversial. For the past five or six years increasing numbers of corporate employees have been migrating to work in coworking spaces. In WeWork's (failed) IPO filing, they reported that around 40% of their members are employees of large companies.⁽⁴⁾ We are seeing similar numbers at other spaces around the world.

For companies who sponsor their employees to work from coworking spaces, those third party spaces have effectively become part of their overall workplace strategy. As remote working becomes even more commonplace post-Covid, we see the corporate workplace (broadly defined) as consisting of four nodes:

- » At the office
- » At home
- » At coworking spaces
- » At other locations (such as coffee shops, etc)

The good news is that there are ready-made corporate users of coworking, a number that is likely to keep growing. The bad news is that, in the event that the efficacy of the coronavirus vaccine is not fully efficacious, the coworking industry as we know it today simply won't survive. The core business model would have to come off of the high density RSF model and move on to something else. But what could that be?

If coworking as we know it collapses, it could find a future as being more explicitly (if not exclusively) a corporate solution. In this model, companies would lease large sections of space, with low-density seating, with the goal of having relatively few people on site at any given time. The key would be that different people would rotate through the space on a given week, no one reporting to the space on a daily basis.

This would provide hub spaces for teammates to interact, with the idea that on the other days of the week people might work from home or at the office. All four nodes would come into play, and coworking would simply be one of those nodes for corporate employees. The business model here would have to be adjusted as well, and the pricing per seat would need to be increased to offset the reduction of seats. In the context of a continuing coronavirus threat, though, it might be that that additional space in fact becomes a luxury worth paying for. It is unclear if this will happen, but it is a possibility.

Unfortunately, if something similar to Scenario 3 does unfold, it would be difficult for spaces to be set up to accommodate the smaller more traditional coworking users: freelance hot deskers, small businesses, dedicated desk users, etc. The coworking industry as we know it would morph into largely a corporate-type workplace, and a bookend would be placed on the version of coworking that defined the term 'coworking' in the first place.

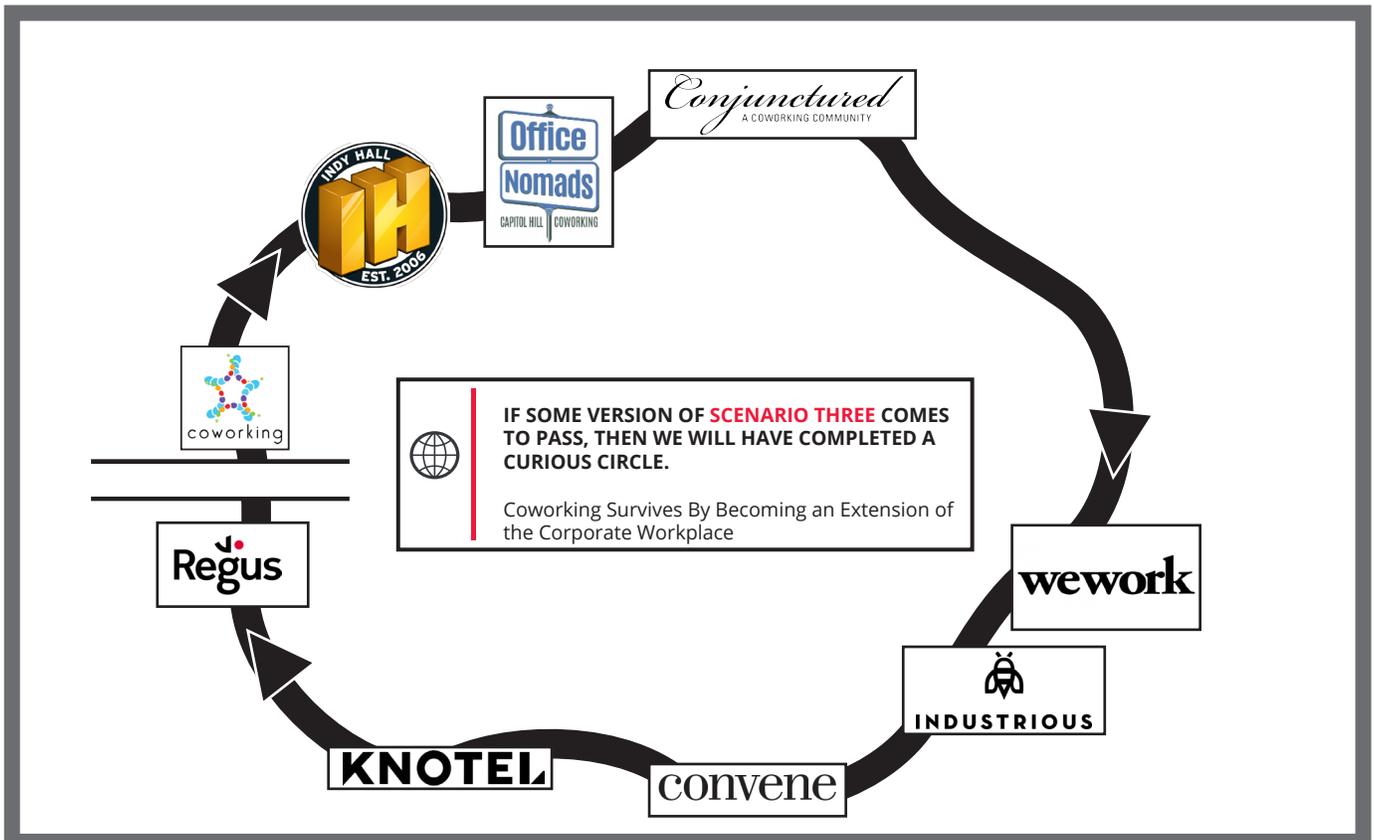
Regus 3.0

Many years ago people at Regus claimed that they invented coworking.
For the early coworking operators-

- » Citizen Space
- » Hat Factory
- » Spiral Muse
- » Indy Hall
- » Office Nomads
- » New Work City
- » Conjured

- such a thought was preposterous. For coworking's early innovators, Regus was just a tired executive suites concept for conventional companies with large oak desks, fake secretaries, and lots of cheese.

Fast forward to the post-Covid environment, and think about what happens if something similar to Scenario 3 comes to pass? At such point, the "coworking" industry will have come full circle and returned to its corporate roots. This time, though, the spaces will be cooler, the design more desirable, the fake secretaries gone, and the overall work experience more satisfying. Will it any longer be coworking?





Closing Thoughts

As mentioned previously, we do not have a crystal ball and these are just three possible directions in which the industry might go.

In all likelihood, what does eventually happen will be a hybrid of these and other scenarios. That said, only Scenario 1 will leave operators relatively unscathed. Scenarios 2 and 3 will require significant adaptation and innovation.

The wild cards here of course are the primary CRE players- CBRE, JLL, Cushman & Wakefield, Colliers, Knight Frank, etc. In many ways they hold the keys to what happens next. However, as we've learned from the current Covid scare, people can work from home more effectively than many companies previously assumed. This will inevitably shrink demand for their product.

Recent announcements from Twitter and Facebook, that their people would remain home for some time, would suggest a significant reduction in demand for physical office space. Indeed, recent reports suggest that around 25% of tech workers are saying that they would like to continue working at home indefinitely.(5) If you project those numbers across the whole office market, it would seem that CRE firms will also have to adapt their business models and strategically innovate to remain the fulcrum of the industry in a post-Covid environment.



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OPEN\WORK AGENCY

OpenWork is a workplace strategy, culture, and change management agency. We help companies transition to better and more human-centered ways of working. We are based in Austin, Texas.

<https://openwork.agency>

COWORKING SINCE 2008

2008

Co-founded and operated two of the earliest coworking space businesses, Conjurctured (Austin, Texas) and Shift Workspace (Birmingham, Alabama).

2009

Co-authored first book on coworking, [I'm Outta Here: How co-working is making the office obsolete](#)

2013

Authored first book on corporate coworking, [The Fifth Age of Work](#).

2014

Co-founded and operated first full-service coworking development consultancy in the world, OpenWork Agency.

2020

OWA introduces change management framework to help companies build flexible workplace strategies and human-centered cultures.



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