FLEXIBLE WORKSPACE REVIEW // US 2016

US

Instant

// CONTENTS

1. OVERVIEW

2. WHICH STATES ARE DRIVING GROWTH IN THE FLEXIBLE MARKET?

3. CITY-BY-CITY GROWTH

4. CO-WORKING - WHAT IS IT AND WHERE IS IT HAPPENING?

5. ARE CLIENTS TAKING PURE CO-WORKING SPACE OR HYBRID MODELS?

6. OPERATOR INSIGHT

7. HOW IS FLEXIBLE SPACE BEING USED?

8. WEWORK - WHAT DOES IT MEAN FOR THE MARKET?

9. US FLEXIBLE MARKET VS CONVENTIONAL SPACE

10. FUTURE TRENDS - WHAT'S NEXT?

CROSS CAMPUS
Pasadena

// OVERVIEW

This document represents the most comprehensive study of flexible workspace in the US. The information included has been compiled by the global flexible workplace specialists, Instant.

The rise of the contingent workforce and take up of flexible workspace by corporate occupiers has driven growth in the US flexible office market in 2015.

Co-working has grown more than 10% across the US and combination centers offering both executive suites and co-working spaces have expanded by 12.9% in the last year alone.

The increase in centers offering some form of co-working is four times that of conventional executive suites, which have increased by only 3.4% in the same time period. The total flexible workspace market has grown by an average 4.3% and now includes 3,596 centers, the largest market of its kind in the world with the UK following behind at 3,290 centers.

The US market is still relatively concentrated with 50% of the total market located in five states and the same proportion of centers in just 50 cities. California leads the way as the state with the most flexible space and also the largest number of dedicated co-working spaces, driven by widespread adoption of co-working by the TAMI (technology, advertising media and information technology) firms of San Francisco and Palo Alto. There are now 103 "pure" co-working spaces in California, more than double that of any other state in the US as the trend for collaborative workspace continues its inexorable spread from its Silicon Valley roots to the rest of the global market.

Desk rates decreased in NYC in the past year by 2.9% but it is still the most expensive city in the US for flexible workspace at $1,047 per desk per month. Washington DC is in close second to NYC with an average workstation rate of $1,022, an increase of 17.2% on the previous year. San Francisco has also experienced double digit-growth in workstation rates of 11.5% which take it to third place in the list of most expensive locations, some $100 more expensive than Los Angeles in fourth place.

The greatest proportional growth in flexible workspace per city has come outside the top ten largest cities, in secondary locations such as San Jose, Portland and San Antonio. These markets have seen market growth of up to 15% as the number of flexible office options grow across the US.

However, the most telling statistic relates to two of the US' more mature markets – San Francisco and Washington DC – where despite increases in the supply of space by 6.3% and 7.3% respectively, workstation rates have grown rapidly. Rate increases of 11.5% in San Francisco and 17.2% in Washington DC would suggest that the market has enough occupier demand for space to support relatively large increases in supply and still introduce aggressive rate hikes in the market. This would mark them both as areas for growth in the coming year.

// WHICH STATES ARE DRIVING GROWTH IN THE FLEXIBLE MARKET?

Nearly half of all growth in the market has been generated by just four states across the US – California, New York, Texas and Washington.

NEW YORK, SAN FRANCISCO, AUSTIN, SEATTLE & LOS ANGELES

The largest city markets for co-working

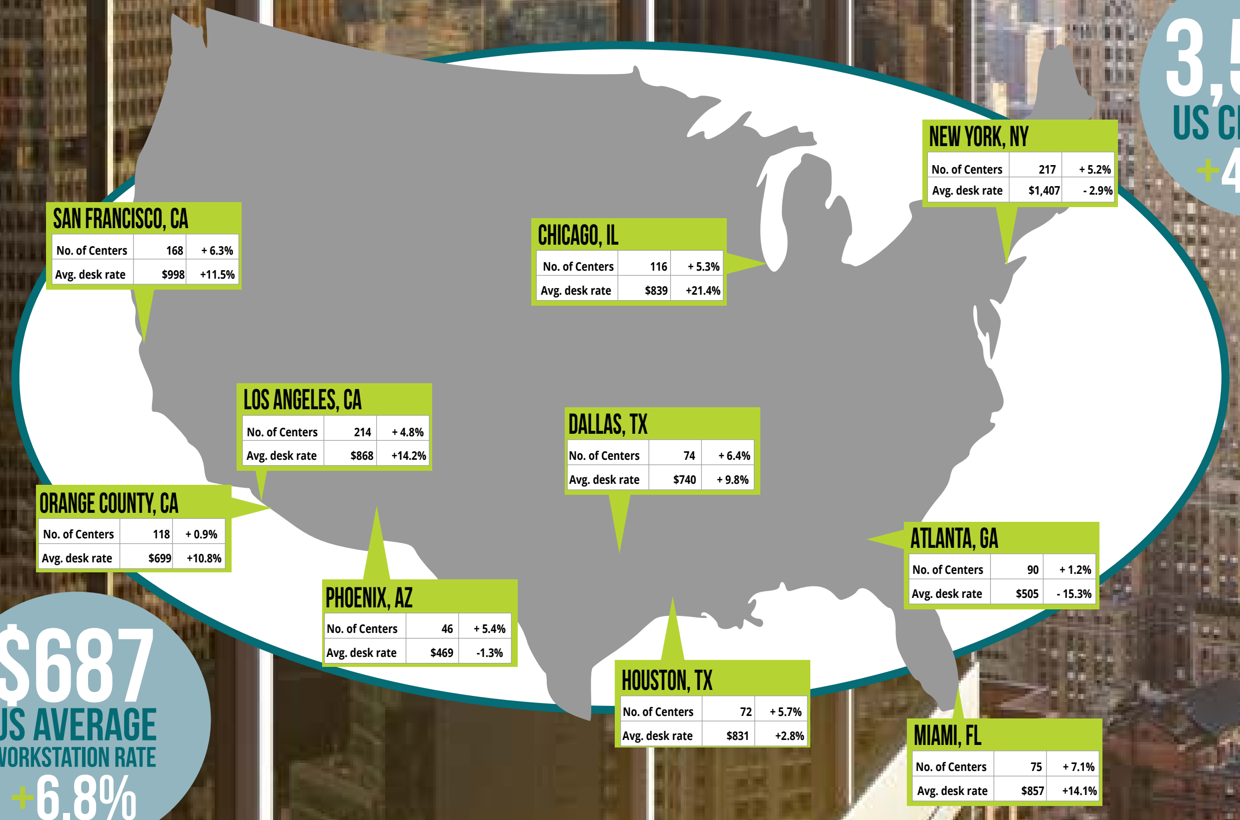
The largest city markets for co-working are New York City, San Francisco, Austin, Seattle and Los Angeles. Outside of these cities, growth is restrained and more fixed on the traditional executive suite, office model.

The largest state markets in terms of the number of executive suites – or serviced offices – were California, New York, Florida and Texas. Over the last year, they were middle markets in terms of proportional growth of workspaces, which indicates that they are reaching maturation and will not see the exponential growth of previous years.

The top 10 states in terms of executive suite center provision have seen an average center growth rate of 4.4% and an average increase in workstation rates of 3% - again indicating market maturity and stable conditions in those areas with well-established markets.

The exceptions to this rule were the Texas and California markets, with both states seeing workstation rates increasing by more than 10% year-over-year. Demand is outstripping supply in both states, driven by strong local markets for business start-ups.

TOP 10 CITIES NO. OF CENTERS



3,596 US CENTERS +4.3%

$687 US AVERAGE WORKSTATION RATE +6.8%

2015 VS 2014 // STATES

(YOY US FIGURES % CENTER GROWTH)

State		No. of centers	Center growth	Avg desk rate ($)	Desk rate growth
AL	Alabama	21	18.8%	356	9%
UT	Utah	28	13.6%	812	9%
NJ	New Jersey	99	13.3%	714	-14%
IA	Iowa	14	11.1%	343	25%
NH	New Hampshire	14	9.1%	628	20%
IN	Indiana	28	8.7%	351	-10%
WI	Wisconsin	34	8.0%	430	8%
DC	District of Columbia	55	7.3%	1,022	17%
MN	Minnesota	45	7.1%	701	-15%
NC	North Carolina	85	6.6%	771	18%
VA	Virginia	88	6.6%	777	16%
FL	Florida	354	6.2%	758	4%
NM	New Mexico	21	5.6%	287	-14%
IL	Illinois	145	5.4%	709	16%
MD	Maryland	67	5.0%	825	15%
KS	Kansas	26	4.8%	582	24%
SC	South Carolina	26	4.5%	427	0%
NY	New York	278	4.5%	1,063	3%
TX	Texas	299	4.5%	811	18%
CT	Connecticut	51	4.4%	1,070	-3%
TN	Tennessee	56	4.3%	652	2%
WA	Washington	83	4.0%	794	14%
PA	Pennsylvania	89	3.8%	701	-25%
CA	California	616	3.6%	872	15%
OR	Oregon	41	2.9%	768	-5%
NV	Nevada	82	2.7%	490	19%

State		No. of centers	Center growth	Avg desk rate ($)	Desk rate growth
AZ	Arizona	127	1.9%	356	4%
GA	Georgia	125	1.9%	501	-15%
MA	Massachusetts	96	1.7%	756	9%
OH	Ohio	70	1.7%	558	6%
CO	Colorado	118	1.3%	727	-10%
AK	Alaska	6	0.0%	566	13%
AR	Arkansas	6	0.0%	199	14%
DE	Delaware	8	0.0%	374	-15%
HI	Hawaii	9	0.0%	866	14%
ID	Idaho	7	0.0%	650	-13%
KY	Kentucky	46	0.0%	400	-20%
LA	Louisiana	26	0.0%	408	4%
MI	Michigan	61	0.0%	643	0%
MS	Mississippi	6	0.0%	405	12%
MO	Missouri	47	0.0%	525	-11%
NE	Nebraska	16	0.0%	523	13%
OK	Oklahoma	19	0.0%	486	-19%
RI	Rhode Island	8	0.0%	330	6%
ME	Maine	3	n/a	750	0%
MT	Montana	1	n/a	350	0%
ND	North Dakota	1	n/a	185	0%
SD	South Dakota	4	n/a	318	14%
VT	Vermont	1	n/a	n/a	n/a
WV	West Virginia	1	n/a	391	30%
WY	Wyoming	5	n/a	213	14%

2015 vs 2014 // TOP CITIES

(YOY US FIGURES % CENTER GROWTH)

City	No. of centers	Center growth	Avg desk rate ($)	Desk rate growth
Portland	10	14.3%	$570	-17.4%
San Antonio	17	14.3%	$489	-9.6%
San Jose	13	9.1%	$721	-14.7%
Washington DC	55	7.3%	$1,022	17.2%
Miami	75	7.1%	$857	14.1%
Dallas-Fort Worth	74	6.4%	$740	9.8%
San Francisco	168	6.3%	$998	11.5%
Houston	72	5.7%	$831	2.8%
Phoenix	46	5.4%	$469	-1.3%
San Diego	61	5.4%	$708	6.6%
Chicago	116	5.3%	$839	21.4%
New York	217	5.2%	$1,047	-2.9%
Los Angeles	214	4.8%	$868	14.2%
Philadelphia	23	4.8%	$804	17.9%
Sacramento	59	1.8%	$738	10.0%
Atlanta	90	1.2%	$505	-15.3%
Orange County	118	0.9%	$699	10.8%
Austin	45	0.0%	$804	10.0%
Seattle	41	0.0%	$745	2.4%
Denver	47	0.0%	$643	-21.4%
Boston	29	0.0%	$798	2.6%

// CITY-BY-CITY MARKET GROWTH

The cities of San Antonio, Portland and San Jose, California have seen the largest growth in number of executive suites and a drop in workstation rates year-over-year. While this denotes an increase in supply to the market, the anticipation is that this will settle over the course of the next year as the city markets adjust to increased supply.

New York City still has the highest number of centers offering flexible workspace, but has seen workstation rates remain flat, potentially resulting from increased supply and competition.

Despite New York's workstation rates remaining static, it is still the US's most expensive market and has maintained this position for the previous two years. The city now has more than 200 centers, an increase of more than 5% in the past year.

A large proportion of US cities (80%), which have experienced relatively constrained growth of flexible space of 5% or less in 2015, have also experienced a strong increase in workstation rates compared to the previous year's data. This supports the theory that robust occupier demand is driving up rates in areas where supply does not match the need for space.

Three of the largest US markets for flexible office markets – Chicago, Los Angeles and San Francisco – have experienced workstation rate increases of 10% or more in 2015. This large increase in rates comes despite moderate growth in supply of workspace, which indicates strong occupier demand.

Outside of the cities with large flexible workspace provision, pent up occupier demand appears to be driving strong desk rate growth. Miami, Philadelphia, Dallas and Austin recorded double-digit growth in workstation rates in 2015 of between 10% to 20%. A limited supply of new workspace in these markets contributed to this strong growth.

// CO-WORKING:

WHAT IS IT AND WHERE IS IT HAPPENING IN THE US?

Broadly speaking, co-working refers to a working practice that involves a shared office environment for workers from different organizations.

Driven in part by the growth in the contingent workforce and start-ups, co-working has become a flexible alternative to taking conventional office space.

In many co-working spaces, there often operates forms of open collaboration between individuals from different organizations but with complimentary skill sets.

Instant's research of the US market demonstrates that the co-working model differs radically across the country.

In the more established flexible workspace markets – such as New York City, Los Angeles and San Francisco – the term refers to the model described above and is driven by collaboration. While this form of co-working is growing elsewhere in the US, workspace operators are also using co-working to describe more conventional private office space with breakout areas for occupiers to meet, and work more flexibly if they choose.

THRIVE
Denver

// ARE CLIENTS TAKING PURE CO-WORKING SPACE OR HYBRID MODELS?

WeWork's rapid ascent to a global brand valued at $16 billion is a key component of the co-working trend. According to deskmag.com, the co-working market across the world has increased by nearly 300% in just five years and WeWork's expansion from New York to five other countries around the world is a key driver of this trend.

Despite its synonymy with co-working, WeWork's provision of space varies to include the provision of private desk space, which appeals to growing SMEs and corporate occupiers alike. Where perhaps WeWork's success really lies is in its altering occupier perception of traditional office provision, which has led SMEs to inquire after co-working space, seek out collaboration and drive more demand for flexible space provision by occupiers.

Other co-working operators are promoting a purer form of the co-working model. Grind – which operates members-only shared workspaces – is based in New York City and Chicago and adheres more to the collaborative co-working model of members working alongside one another, often at an undesignated desk. It offers varying membership models, which allow access to its sites and either desk space or private offices for the purposes of meetings.

Corporate occupier Verizon recently partnered with Grind to transform 10,000 sq. ft. of underutilized space in its Manhattan headquarters into a flexible workspace for start-ups and entrepreneurs. The technology firm wants to facilitate a new wave of growth in its sector by offering business incubator space and collaborating with its occupiers. Grind's knowledge of creating open, collaborative space was a good match for Verizon's ambitious new project.

Co-working specialist firm Grind positions itself as the "antidote to offices" with a members-only model based very much on community working. The firm recently launched an online collaboration platform via an app for its community of "Grindists" which will facilitate and reward members for working together. This includes bringing together different areas of expertise to allow organizations to grow together and connecting those members within the contingent workforce – independent consultants, creatives and "solopreneurs."

WEWORK
Wonder Bread Factory, Washington D.C.

RISE
New York

// OPERATOR INSIGHT

Co-Working has driven the media narrative on the sector but behind the headlines, the larger players in the flexible workspace market have shown robust growth. Regus opened its 1,000th location in the US in 2016, and is evolving its approach as the market continues to progress. It has moved to having Community Managers in its centers, indicating the importance clients are placing on community and collaboration.

In the past year, Regus has simplified its pricing structure, moving towards a cost inclusive model and introducing month-to-month pricing. This is a significant step as it is indicative of an industry-wide move to transparency and simplicity of pricing, and reflects market demand for office space outside the conventional model where costs are more opaque.

With its acquisition of the Dutch co-working company, Spaces in 2015, Regus is opening nine spaces under this brand in response to occupier demand for collaborative environments and intercompany networking. Five of these new centers are based in California, which is still leading the way in regards to high value being placed by members on the ability to connect and work with other occupiers of the common space.

The other larger operators are continuing their expansion in the US market in recognition of the strong market conditions. Premier Business Centers already has more than 80 locations, which were predominantly on the West Coast, but the center openings in the coming year are scheduled for Miami, Chicago, and Washington DC. Carr Workspaces now has over 30 locations across numerous states and is looking to grow its portfolio in 2016. They have recently introduced a work ready solution to assist growing companies in taking on executive suites on flexible lease terms but with an unfurnished and furnished option that allows them to design their own branded space.

The last 12 months has seen the opening of 156 new flexible workspace locations throughout the US. The number of operators with 50+ US locations accounted for only 30% of a fragmented market. The majority of these new locations have been opened by either small businesses, landlords activating underutilized space and, or operators opening in tertiary cities. With such fragmented ownership across the industry, the consumer is provided with unprecedented choice when looking for flexible workspaces. Collectively these smaller operators offer diversity as widespread as the very companies that occupy them.

GRIND
New York

// HOW IS
FLEXIBLE SPACE BEING USED

Data shows substantial growth in the number of corporates driving flexible workspace deals. 79% of those companies that have made deals for spaces of more than 40 desks in the past five years have been large corporations. The number of deals for space requirements has tripled in the past two years alone, driven by demand from the corporate sector.

"The traditional landlord is struggling to meet demand for flexible workspace from both the corporate market and the contingent workforce. While very different elements of the workforce, both are driven by the same goal of working in spaces that fit their business requirements in the short- to medium-term and facilitate sharing ideas and collaboration," said Bodick. "The WeWork model is at the heart of this new way of occupying space but the trend is far larger than one brand alone, however significant."

Instant's assessment of 3,500 centers across the US confirms that many operators now refer to themselves as providers of co-working space. Many spaces that were previously dedicated exclusively to executive suites now offer collaborative, open-plan space with break-out areas that facilitate occupier dialogue and collaboration. Within Instant's analysis of this market, these providers are referred to as "hybrid-models" and this offer now represents 10% of available flexible space in the US.

"The office market in New York City has undergone substantial evolution in recent years. Instant's operator research demonstrates the widespread adoption of different occupancy models," said Mat Hosking, Director of Instant US. "This includes WeWork's move to provisioning corporate space for larger occupiers to creating loft space and forming business incubators in conventional office space. More established operators such as Servcorp are now looking at provisioning co-working space within the traditional executive suite market."

// WEWORK:
WHAT DOES IT MEAN FOR THE MARKET?

The rapid rise of WeWork has become one of the major talking points of the industry. The media has credited owner Adam Neumann as creating "the future of the office," but what does this exciting new brand really represent?

Currently occupying 66 locations, it is the fourth largest global operator and estimated to have more than 2m sq ft of space leased globally. WeWork is currently home to more than 9,000 businesses and more than 40,000 members, representing growth of 225% in 2015 alone. Despite the widespread view in the media, membership is not restricted to just start ups and entrepreneurs; WeWork is proving highly popular with corporate occupiers such as Microsoft.

Despite competitive market pricing and possessing substantially less stock than Regus, WeWork is currently valued at $16 billion by its investors. By way of comparison, Regus currently operates 3,000 centers globally in more than 900 cities compared to WeWork's 66 locations, and is valued at slightly over $4 billion. That said, it is WeWork that has become synonymous with co-working and much of the media coverage of this new way of occupying workspace also references Adam Neumann's nascent firm.

WEWORK
Charging Bull, New York

// US MARKET:

GLOBAL CONTEXT

2015/6 saw a strong shift toward flexible workspace in the UK market as well as growth in many of the world's top markets. There was double-digit growth for size requirements in the US and UK, which highlights the increased take-up of flexible space by corporates. Asia's lead cities report similar results and Australia had a particularly strong year. Instant's inquiries for flexible workspace in all regions were up by nearly a quarter on the previous year.

The global flexible office market now totals around $21bn, which shows compound growth of around 21% in the past five years. The three largest operators in the market – Regus, Premier and Servcorp – now make up 36% of the total market. However, if WeWork's anticipated level of growth continues then it will enter this select group, with the US company having 1.5m square feet in London alone by 2016.

The UK and US are still the largest markets for flexible serviced offices / executive suites. They dominate the global market with approximately 32/30% market share respectively, EMEA has a 22% share and Asia Pacific 16%. While the US currently boasts less executive suite centers compared to the UK, the proliferation of co-working sites means that the US offers a far larger number of flexible workspace sites, in the broadest sense.

While Asia-Pacific represents a relatively small part of the total, there are strong signs of growth in that region. For example, the Hong Kong market has increased by 50% in just two years; driven in part by the global trend towards co-working, there are now 174 flexible spaces available, which is only slightly behind New York City's 217 centers.

// US FLEXIBLE MARKET
VS
CONVENTIONAL OFFICE SPACE

With high occupier demand, the majority of US locations are reporting lower vacancy rates than at the height of the last boom, according to CBRE's most recent market outlook. Strong demand for space and falling vacancy rates are producing owner-favorable conditions in most downtown and suburban locations. In the UK, we have already seen that conditions such as these lend themselves favorably to the flexible workspace market as tenant options in the conventional market become more limited.

New York City is in in the midst of an office construction boom, with more than 26 million sq. ft. of new space scheduled for completion. The city has not seen a supply pipeline like this since the 1980s and it comes in response to inactivity over the previous 15 years, which led to pent up demand for modern offices. But the age of existing stock means that it is unsuitable for the demands of the modern tenant particularly those looking for long-term leases. The conventional office space market is being driven by the growth in "TAMI" firms – technology, advertising, media and information companies – which demand higher density, open floor spaces with collaborative "break-out" areas.

As the supply of new office space enters the lease market, landlords are looking at ways to retain and attract tenants. One strategy has been the introduction of flexible workspaces into their assets, either through leasing space to a flexible office operator, or the provision of free collaboration areas within lobbies, cafes and breakout areas. This added amenity is a tool landlords are using to reposition their building to meet the collaborative demands of many companies who seek to retain their millennial workforce.

For example, Servcorp, has seen significant demand from future tenants of 1 World Trade Center taking short term office space at Servcorp in this building whilst their traditional lease fit-out is being completed.

STRONGBOX WEST
Atlanta

// FUTURE TRENDS
IN THE FLEXIBLE WORKSPACE MARKET

The US Government has stated that more than 40% of the total US workforce now consists of contingent workers and this number is set to rise as working habits continue to change. The rise in consumer awareness of co-working is reflected in the increase in Google searches of this term: the use of the search term "co-working" has increased by more than 400% in just five years in the US alone.

In what is still a relatively young market, the flexible office sector has undergone great change and global expansion in a short period of time, but there is the definite sense that there is even more change to come.

Instant's review of the US flexible workspace market reports more than a 100% growth in secondary cities as an alternative to the large, metropolitan areas, especially if the former are within reach of a primary city.

There are similar levels of growth in areas aimed at attracting start-ups, particularly those
focused on technology. In areas with dynamic levels of growth, there is often a legacy of industrial or manufacturing in the area, which has obviously been a focus for regeneration and change of use to a new form of usage. Examples of this include, Palo Alto, Henderson, Delray Beach, Overland Park, Encino, Tulsa and Woodland Hills.

Further change will be driven not only by working habits and corporate real estate strategy, but also by new entrants to office provision, as technology enables new forms of space to be deemed suitable for flexible working. There are new, global trends such as Activity-Based Working, which experienced rapid growth in Australia's financial sector and is now the case across European workspace. Employers and workers alike are demanding more of their office space and it is now an opportunity for the flexible workspace market to respond to this challenge – a challenge the sector is well equipped to take on given its ability to adapt and evolve at a rapid rate. Flexible workspaces are becoming a part of corporate strategy. Large companies are utilizing flexible workspaces for project teams, specific business units, innovation labs, and M&A integration. More often than not these companies have established conventional offices in the same city but the provision of flexible space adds agility across the corporate structure. The result of these demands by larger clients has lead flexible office operators to create spaces for larger team rooms.

The focus given to collaboration in flexible workspace is already having one repercussion and that is the growing provision of spaces for concentration. This is already being seen by workspace designers who are viewing the latest corporate briefs, the need to move to a more focused space and work in isolation is now being introduced by flexible workspace operators.

Choosing a workspace is becoming less about specific location but more about the task required and how the space suits this requirement. Undoubtedly, the millennial workforce is driven by experience over location and predicate their workspace choices on service provision and atmosphere. But across the market, occupiers are looking to find space that facilitates networking, project-work, team collaboration or simply a place that offers quiet and solitude to meet a deadline. The corporate market is starting to join the contingent workforce in finding task-specific space rather than relying on a one size fits all approach to workspace.

Flexible workspace and the membership model of co-working has changed the way that SMEs view networking. Business development has always been a challenge for a growing business but now with the collaborative, membership model facilitating networking, it has removed a significant obstacle to growth. With this in mind, companies are selecting their space with a view to how it will increase their network of connections. And with the proliferation of networking apps, collaboration is becoming a key metric to consider in choosing a space. Furthermore, the Community Manager that is responsible for curating this space is increasingly responsible for driving this collaboration, corporate engagement and tangible sense of brand, which ultimately drives customer retention.

Technology is enabling many of these changes but it is the key quality of agility that is at the heart of so many of these market changes. If this is the "new normal" then the types of space will become increasingly refined as occupier demands create new products for workspace. Specialist brands will proliferate with specific market expertise in collaboration, concentration and corporate engagement. While occupier demand continues at its current level and vacancy rates in conventional space are squeezed, we can be certain that flexible solutions will continue to evolve by necessity and retain their focus on client solutions.

MORE THAN 40% of the US workforce now consists of contingent workers

The Instant Group is the independent global flexible workspace specialist.

Underpinned by unrivalled expertise we tailor unique workspace solutions to help businesses of all sizes to grow, drive efficiency or gain invaluable insights.

Partnering with 99% of the world's flexible office providers, The Instant Group's workspace procurement platform Instant Offices lists over 8,500 flexible office options, across 115 countries and over 1,500 cities.

From small businesses to mid-caps, corporates to project-led businesses, it's the go to partner for more than 7,000 organizations globally - making it the largest buyer of flexible office space in the world.

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Note: All figures in this report were collated using The Instant Group's proprietary transactional data and market research surveys as at September 2015.

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