Disruption in the corporate real estate market

Leveraging the co-working industry to rethink corporate real estate strategy
Tech disruption has pushed Corporate Real Estate onto the strategic agenda

Corporate Real Estate (CRE) spend accounts for 12 - 15 percent of an organization's general and administrative expenses and 40 percent of their balance sheet overall. It costs an organization in the US roughly US$12,000 per year to provision a seat in an office¹ (US$25,000 per seat in cities like New York), yet office space utilization hovers around 40 percent². Considering the percentage of an organization's expenses that are made up of real estate transactions (second only to compensation), CFOs and CRE executives are seeking solutions to optimize portfolios, increase utilization and lower costs.

One cost reduction solution is digital workplace transformation as a strategic accelerator. Technologies such as occupancy-based sensors and utilization analytics provide executives with insights they've never had access to before.

Another solution to the Corporate Real Estate function's cost optimization objective is employing co-working space. This article explores the benefits and implications that the quickly evolving co-working industry segment presents for Corporate Real Estate decision-makers.

The steadily growing co-working industry offers stability and flexibility for traditional CRE portfolios

In cities like London, New York, and Chicago, the co-working sector has expanded at an annual rate of 20 percent\(^3\). In the past five years, shared workspaces have exploded globally, growing by more than 200 percent (with a projected 16 percent annual growth rate\(^4\)).

While the co-working model was initially targeted at startups and freelancers to facilitate the “gig economy,” it has evolved into an attractive option for large enterprise clients looking for a flexible, lower cost option. At WeWork, for example, the percentage of enterprise clients has grown from 8 to 30 percent in the past two years and is expected to exceed 50 percent by 2020\(^5\). Enterprise customers include not only notable technology companies like Microsoft, Facebook, and Airbnb, but also more traditional corporations such as IBM, UBS, and Verizon that have been historically wary about security infrastructure in non-corporate locations. Enterprise use cases include anything from swing space and satellite offices to innovation centers and regional headquarters, each chosen for different reasons but with shared benefits:

1. **Cost reduction through enhanced space utilization**
   The immediate benefit of leveraging co-working space is cost reduction. Corporations can achieve considerable savings on upfront construction costs by opting for co-working spaces instead of signing a new long-term lease. Co-working membership terms also allow more flexibility than traditional office building or commercial leases. Co-working space saves organizations 25 to 50 percent in operating expenses\(^6\), while also lowering the square footage required per person from the industry average of 250 sq feet to just 50 sq feet\(^7\). Utilizing co-working spaces also allows organizations to delegate tracking of space related metrics (i.e. utilization, efficiency) to the co-working space provider, reducing the size of the CRE function within the organization.

2. **Digitally enabled workspaces that enable new insights**
   Utilization metrics that co-working spaces provide allow organizations to tap into powerful powerful usage and efficiency insights. These data-driven takeaways empower executives to make better-informed decisions on real estate investment and improve their space more effectively.

3. **Attractive work environment that adapts to changing employee workstyle**
   For employees, co-working spaces with modern design, rich community culture, and access to the latest disruptive systems and tools are significantly more attractive than a standard cubicle. Co-working spaces offer employees the opportunity to network and collaborate with people outside of the member’s immediate organization, elevating employee happiness, wellness, and productivity. Happier employees translates to stronger retention and better recruiting outcomes.

4. **Consistency across all global operations**
   Building a global presence is increasingly critical to an organization’s strategy. Utilizing a globally-operated co-working space allows organizations to create a consistent workspace culture and experience across regions. It also allows companies to stand up operations in new markets quickly to accommodate global demand. To date, 22 percent of global Fortune 500 corporations are customers of co-working providers. Nearly 60 percent of global companies believe that by 2020, they will use co-working space for at least part of their office portfolio\(^8\).

5. **Flexible solutions for different strategic goals**
   There are various adaptations of the co-working model that corporations can leverage (as illustrated in Figure A). An occupancy survey by the commercial brokerage firm CBRE suggests that nearly half (44 percent) of corporations are already using some type of hybrid or flexible office solution\(^9\). Corporations should select strategically based on short-term and long-term vision for the CRE portfolio footprint. A company that focuses on entering new markets will benefit from co-working private offices with global access, while an established corporation that is looking for a regional headquarters can select the space-as-a-service model to outsource building operations and facilities management.
What is next for co-working?

Over the next decade, as the co-working industry continues to experience significant global growth, so will the number of corporations utilizing the co-working model. As workforce preference shifts away from brick-and-mortar offices and employees embrace a flexible and mobile workstyle, it is critical that corporations consider adding co-working space - in any form - to their CRE portfolio. As fast as enterprises adopt co-working models, these models themselves will evolve and change. Co-working spaces will morph into co-living spaces, combining work, life, wellness, and even education. Space-as-a-service will convert public libraries, restaurants and concert halls into conference rooms and business event centers. The ability to lease real estate “On Demand” will allow consumer-preference driven corporations to quickly move to or away from the exact geography where demand is ebbing and flowing. Usage analytics based on blockchain will underpin this entire system, creating exponential data and predictive opportunities. Amidst all of this change is the basic idea that co-working brings people together to brainstorm side-by-side in a common location. This fundamental concept will lend itself to potentially the most lucrative opportunity of all: skunkworks-style collaboration between startups, political groups, corporate innovation arms, and academics.

5. WeWork’s internal material on Enterprise Solution, 2018.
7. WeWork Teardown, CBInsights.