INTRODUCTION

In January, we predicted five flexible workspace trends to watch. These included the rise in enterprise outsourcing, the hotelization of office assets, a boom in wellness offerings, a revival of suburban locations and further operator fragmentation. The impact of COVID-19 has accelerated these trends, while ushering in a new set of trends. Many of these themes were highlighted during our “What’s Next for Flex?” webinar in May, including the emergence of choice-based models of working, new health and safety protocols being the new “wellness” and the focus on developing a more distributed portfolio strategy across the office, home and third spaces continuum.

In this report, we explore the dual impacts of COVID-19 and the continued growth of flexible workspace on occupier strategies in our new normal. We review the common health and safety measures operators are implementing, what options landlords have for delivering flexible workspace, what impacts flexible workspace may have on building valuations and what to expect due to the continued growth of the flexible workspace sector.

We also include a look back at 2020 through a data-driven summary of market, inventory, pricing and operator changes since 2019.

We hope this report can serve as a guidepost for flexible workspace as companies manage this new reality.

FRANCESCO DE CAMILLI
Vice President, Head of Flexible Workspace Consulting
Occupier Services | Americas
THE GROWTH OF FLEXIBLE WORKSPACE

With roughly 20,000 flexible workspaces worldwide and IWG (3,300) and WeWork (848) accounting for less than a combined 25% of total inventory, the continued demand for flexible workspace has welcomed new players and operating models across the globe.

Many predict the inventory share of flexible workspace of the total office stock to accelerate as the number of flexible workspaces double or triple over the next five years – despite a temporary setback from the COVID-19 pandemic.

REASONS FOR CONTINUED GROWTH

- **Corporate demand for flexible workspace.** Partially due to improvements in the quality of supply but primarily due to greater demand for flexibility within CRE departments, there has been a surge in enterprise adoption of flexible workspace over the last few years. The COVID-19 pandemic has only accelerated the corporate need for flexibility.

- **Suburban and secondary/tertiary market growth.** Non-core markets that lagged coastal CBDs in growth of flexible workspace have added considerable inventory to meet emergent demand.

- **New operating models.** In addition to the traditional leasing model, operators are now exploring revenue partnerships, management agreements, ownership, and franchise models to expand their fleet of workspaces. IWG has stated bold targets of reaching as many as 50,000 locations by 2030 through franchising.

- **The new flex space vendor economy.** The emergence of a flex space vendor economy has lowered the barriers of entry to developing a flexible workspace solution. From design/fit-out services to tech infrastructure and operating systems to facilities management to marketing/sales support, there’s a suite of services landlords and operators can leverage to quickly activate flex space.

- **The entry of traditional landlords.** From local family owners to global institutional players, there has been a surge in traditional landlords self-performing flexible solutions to capture a slice of the demand.

- **The emergence of niche operators.** You can now find coworking/flex space for artists, engineers, athletes, women, chefs, cannabis operators and many others.

If Flex 1.0 was about where people work, Flex 2.0 will be increasingly centered around how people work. Office and workspace flexibility will encompass much more than just space needs and lease duration, it will now incorporate a holistic understanding of how a company works and optimize for the employee experience.

Amol Sarva
CEO, Knotel
Stronger coverage and higher-quality supply. As penetration of flex space deepens across markets and supply standards continue to evolve, expect flex to be a viable option on every long-list regardless of location.

Investments in customer experience. As the product itself becomes commoditized and functional, well-designed space becomes table-stakes, the differentiators for operators will lie in user experience and quality of service. Operators will invest in harnessing customer loyalty through brand value.

Standardization across traditional owners. Landlords will increasingly allocate 10 - 25% of their assets for flexible leases – through a combo of furnished pre-builds and more sophisticated customizable offerings – these spaces will be offered for 6-36 months and terms will become standardized.

New tools to support effective search and discovery. With more inventory and more choices, there will be new solutions to seamlessly discover options. Whether through working with an advisor or via a tech platform, it will be essential to deploy a comprehensive approach when making a workspace decision.

Downward pressure on pricing. As competition grows, expect more competition and more negotiating room.

Growth of new services and technologies to support all facets of flexible workspace value chain and to feed the accelerating flywheel # – from development to design/branding to operations to sales/marketing support, there will be a growing service industry driving the sector.

Emergence of marketplace technologies that attempt to aggregate small and midsize operators under single networks to facilitate ease of consumption for large corporates. The priceline.com and Airbnbs of office space will emerge. As on-demand takes off, search and marketplace players will assume a significant place in the market and a couple of winners will emerge.
AN INDUSTRY SNAPSHOT

The global corporate real estate market, impacted by the first truly global black swan event to be seen in a generation, is creating uncertainty in the future of forecasts for demand.

The adolescent and rapidly-maturing flexible workspace sector has stopped in its tracks due to this crisis. By definition, flexible, coworking and flex space agreements have allowed clients to terminate spaces with as little as 30-90 days’ notice. As the office economy has temporarily frozen, some operators are facing financial challenges as their client base dwindles and short-term demand remains uncertain. Adding to these challenges, coworking operators’ business models are dependent on high-density utilization, and their central selling point is collaboration. As such, they are now coping with how to accommodate new requirements for social distancing and enhanced safety standards.

Given the extreme external duress placed upon this previously hard-charging sector, there may be a number of operators that are subject to business closure or merger activity. In order to weather the storm, operators are deploying a range of tactics to shore up their balance sheets including lease renegotiations, layoffs and furloughs, bankruptcy filings, filing for CARES (Coronavirus Aid, Relief and Economic Security) Act funding and PPP loans. IWG CEO Mark Dixon closed 32 locations in the first half of 2020 and is in the process of closing over 100 locations in the second half of the year (roughly 4% of portfolio) including 20% of its NYC locations. Knotel CEO Amol Sarva plans to close around 20% of the portfolio.

Despite these significant near-term headwinds, many predict it will be one step back and two steps forward for the flexible workspace industry. In the short term, occupiers are under pressure to generate cost savings and shed long-term liabilities, two necessities that may prove to be a boon for flexible workspace.

The COVID-19 pandemic has amplified the many benefits of flex solutions – most notably term flexibility and capital avoidance. These inherent advantages may lead corporate occupiers to favor flex as a hedging strategy against the unknown.

RECENT OCCUPIER POLL

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>Believe lease flexibility will increase in future</td>
</tr>
<tr>
<td>25%</td>
<td>Believe there will be more flexible workspace agreements</td>
</tr>
<tr>
<td>44%</td>
<td>Indicated greater flexibility in traditional leases</td>
</tr>
</tbody>
</table>

In a recent Colliers Occupier Services poll, more than 90% of respondents projected lease flexibility will increase in the future. Of these respondents, 25% believed this will take the form of more flexible workspace agreements, with another 44.5% indicating that greater flexibility will be built into traditional leases.

The emerging consensus supports the theme of a more flexible future. For operators who can weather near-term occupancy shortfalls through prudent financial management, lease restructuring, and reactive new products and services to retain members, there may be a very bright future ahead.

THE OCCUPIER PERSPECTIVE

The pandemic has sped up realities that had already begun to transform occupiers’ approach to workspace. Three key changes we have seen include: increased mobility, virtual technologies and globalization – and now there will be no turning back. Conventional wisdom dictating where and how people work has been forever upended.

This period of change and uncertainty has raised new questions about what types of real estate should comprise the portfolio mix. Questions revolving around remote work, the workplace of the future and portfolio location strategies are all being revisited in order to support this evolution into a new way of working.

In Colliers’ report findings from the Working from Home Experience global survey, 80% of respondents noted that they would like to work from home at least one day a week. In light of this, it will likely be incumbent upon companies to enable their employees to work from a more diverse range of settings.

In order to facilitate a choice-based workplace strategy, occupiers may consider pivoting to a more agile, network-driven portfolio approach. The center of newly optimized real estate strategies will be based on the tenets of increased flexibility and choice.
The ideal workspace mix will be unique to each occupier, but the new portfolio approach will draw from four main component parts:

4 TYPES OF WORKSPACES

HQs
Most likely in the form of traditional leases, these flagship offices or “hubs” will continue to be located in key markets. There is speculation that the function of HQs may shift from simply housing traditional office space to facilitating large gatherings, meetings, group-based work and functioning to express a company’s culture.

Satellites
A mix of traditional leases and flex spaces, these are traditionally regional and suburban outposts. They will function to enable focused business units to have dedicated spaces for work and collaboration.

On-Demand Spaces
Facilitated via a network of on-demand flex/coworking spaces, these spaces will serve individuals or small groups to book space as needed by the hour, day or week.

WFH (Work-from-Home)/Virtual
Supported by the learnings from the recent pandemic and enabled through new advancements to physical and virtual infrastructure, these at-home offices will support remote work.

The growth of flexible workspace demand will be driven by satellite and on-demand needs with opportunities to support HQs.

To date, on-demand space has been a trend for younger companies or freelance workers looking for short-term leases; flexible workspace has evolved to meet the demand of all types of users. WeWork has publicly stated that over 40% of its customers are classified as enterprise clients. As demand picks back up for flexible workspace in Q4 and Q1 2021, there will be no shortage of operators looking to capture a slice of this demand. While the headlines over the last few years have been dominated by a few global players, the unsung small to midsize operators are making up a larger and larger share of total inventory.
OCCUPIER STRATEGIES

How occupiers can leverage the flexible workspace sector as part of their corporate real estate (CRE) strategy

SPEED, SHARED ➙ CUSTOMIZED, PRIVATE

HOURLY / DAILY
Meeting Space
› On-demand meetings
› Off sites / project planning
› Conference / event booking

DAILY / MONTHLY
Traditional Coworking
› Open-plan working environment
› Dedicated or hot desks
› Shared facilities

MONTHLY / ANNUAL
Private Offices/Suites
› Private office or suite
› Limited customisation
› Shared facilities
Driven by customer demand, Tishman Speyer developed a flex platform to serve companies with whatever they need, wherever it is, under 1 unified platform. Our scale, integration, and suite of offerings allows us to provide a seamless experience from the moment a start-up needs an office to accommodating the entire life cycle of a business.

Thais Galli
Managing Director, Head of Studio, Tishman Speyer

Ultimately, flexible workspace, in any capacity, is the outsourcing of real estate to an operator, whether that operator is the owner of the asset or a third-party flexible workspace operator. While this is typical for start-ups and small and medium-sized enterprises, we expect current global market conditions to lead to a large-scale upswing in enterprise outsourcing.

In a webinar poll conducted earlier this year, which reached almost 1,000 occupiers, nearly 50% considered building more flexibility into traditional leases but no material changes to length of lease term, while a quarter of respondents expected to enter into more flexible workspaces agreements. Further cementing this shift, IWG, the world’s largest flexible workspace operator, confirmed that it has seen a 35% increase in demand for 50+ desks from Q1 2019 to Q1 2020.

ONE YEAR FROM NOW AND BEYOND, WHAT IS THE MOST SIGNIFICANT CHANGE THAT YOU ENVISON TO COMMON TRANSACTION STRUCTURES?

<table>
<thead>
<tr>
<th>Change in Transaction Structure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More flexibility built into traditional leases, without material change to length of lease term</td>
<td>44.5%</td>
</tr>
<tr>
<td>More “flexible workspace” agreements (coworking, services offices, etc.)</td>
<td>26.6%</td>
</tr>
<tr>
<td>Shorter term for traditional leases</td>
<td>19.8%</td>
</tr>
<tr>
<td>A change not listed here</td>
<td>3.7%</td>
</tr>
<tr>
<td>More leasing vs. owning</td>
<td>3.0%</td>
</tr>
<tr>
<td>No material change</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Whether you work for a startup or a large corporation, employees today want workplace options, and they want the power to choose from those options in a way that fits into their lives. Having these options is becoming an employee-expectation, so the operators who embrace this and can best enable companies to deliver that choice to their people in a really meaningful way will be the most successful in the years to come.

Jamie Hodari
CEO, & Co-Founder, Industrious

TRADITIONAL LEASE VS. FLEXIBLE WORKSPACE

A flexible workspace delivers all the elements of a traditional lease for one monthly price point.
WHAT ARE THE KEY DRIVERS FOR OUTSOURCING TO FLEXIBLE WORKSPACE?

**AGILITY**
When an organization has unpredictable or dynamic headcount changes, flexible workspace can allow for agility to grow or contract.

**FINANCIAL**
Outsourcing workspace delivery can reduce capital expenditure and provide operational expense certainty. Reducing long-term commitments reduces balance sheet liability and can improve the efficiency of capital.

**OPERATIONAL**
Outsourcing the delivery of office space can create operational efficiencies. If a single supplier is responsible for all workspace operations, this can deliver in-house management and administrative efficiencies.

**TRANSFORMATIONAL**
Business-driven decisions, expansion into new territories and M&A integrations can all be triggers to use outsourced workspace.

**URGENCY**
Flexible workspace is usually available on much shorter lead times, existing locations can be occupied immediately, and new sites can, at times, be delivered quicker than self-delivery due to procurement and supply chain efficiencies.

**EMPLOYEE ENGAGEMENT**
Operators of flexible workspace typically offer a range of amenities, facilities and services which may be hard to self-deliver. This can improve the workplace environment for employees.
COMMON COVID-19
HEALTH & SAFETY PROTOCOLS

Operators are implementing a range of operational and behavioral changes to ensure the health and safety of members. Spearheaded by Industrious, a consortium of operators formed The Workplace Operator Readiness Council (WORC), a global council of workplace operators to share and coordinate health and safety protocols for the return to work. Colliers serves as an advisor to the council. The standards span a variety of behavioral and operational components:

**SOCIAL DISTANCING**
Common and private area spaces are modified to accommodate a minimum of 6-foot social distancing between members.

**PERSONAL HYGIENE**
Hand sanitizer and disinfectant materials are provided along with education materials for members on adequate cleanliness standards.

**PPE (PERSONAL PROTECTIVE EQUIPMENT)**
Face masks are required or provided for members and guests.

**CLEANING AND DISINFECTING**
All surfaces are cleaned and disinfected at higher rates and high-touch surfaces are minimized.

**SCREENING AND INCIDENT REPORTING**
New policies are administered to screen guests, reduce transmissions, and minimize exposure.

**FOOD AND BEVERAGE**
Only paper cups for beverages and pre-wrapped food items are offered, if any.

**ENGINEERING CONTROLS**
Adjustment have been made to HVAC settings to increase fresh air intake, after hours humidity and air filtration.
Our level of membership inquiry is now higher than before COVID-19, but the new demand has shifted toward private drop-in space for individuals and for teams – people are now seeking places to work safely, close to home but not at home. Companies that were initially planning for a safe return to the office are now taking steps to support hybrid, distributed work as a long-term strategy.

John Arenas
CEO, Serendipity Labs
OCCUPIER MODELS

The component parts of flexible workspace can be deployed across a range of solutions. Here we break down these solutions, though for most occupiers we would expect a range of these solutions to apply.

Employee empowerment is driving the biggest changes to the workplace now, because the individual is choosing where and when to work. We have a massive opportunity to facilitate great work experiences from anywhere by focusing on technology, safety, and a premium, hospitality-driven approach. At Convene, we’ve said that premium is synonymous with safe, and now it’s also synonymous with providing the best workday, wherever it happens.

Ryan Simonetti
CEO and Co-Founder, Convene
MANAGED OFFICE

Scenario

An occupier has a requirement to move a team, division or whole city office, typically 40–300 people.

The occupier understands the full range of benefits traditional flexible workspace offers but doesn’t wish to share all facilities (e.g. breakroom and meeting rooms) and wants more ownership and privacy.

Opportunity

A flexible workspace operator delivers a fully outsourced workspace, which includes all elements of launching and operating an office.

The new facility is a customized and private environment that looks and feels like the occupier’s “own” space, delivered and managed by a third party.

Occupiers have the ability to increase the flexibility of their portfolio through shorter commitments, mitigate capital expenditure and reduce balance sheet liability.

Considerations

This type of solution is now being delivered by specialist operators, traditional flexible workspace operators and, in some cases, directly by asset owners.

Occupiers should be mindful of who is best placed to deliver and operate these environments, especially in new locations.

Managed space is a grey area that bridges the gap between a lease and traditional flexible workspace, arguably allowing the occupier to have the best of both worlds.
FLEX & CORE

Scenario

› An occupier has a requirement for new premises with fluctuating and/or unpredictable headcount projections.
› Alternatively, an occupier wishes to outsource some component parts of their real estate, such as meeting space or a project team.

Opportunity

› Identify an operator that will partner to enter an asset.
› Route 1 – The occupier commits to less space for their core requirement and the operator (or asset owner) launches a flexible workspace location in the same building.
› Route 2 – Full operator commitment – the occupier commits to “anchor” the new location and provides options for future expansion.

Considerations

› The occupier has the benefit of long-term security for core operations and flexibility for growth.
› Predetermined expansion options within the flexible workspace demise (this can be whole floors) provide future growth security.
› The occupier has access to amenity spaces such as meeting, conferencing and events spaces, reducing core commitment and elevating the level of amenities.
› Buy in from the asset owner is needed to effectively execute.
REVERSE FLEX

Scenario

› An occupier has underutilized leasehold space.
› Traditional subleasing or assignment strategies may not be possible due to market conditions.
› The occupier may want to reoccupy space in the future.

Opportunity

› Reduce property costs by partnering with a flexible workspace operator to repurpose space into flexible workspace.
› Mitigate property expenses and even generate income.
› Operators can use different structures, including: assignment, sublease and management agreements.

Considerations

› Asset owner consent may be required.
› There may be CAPEX required to reconfigure.
HUB & SPOKE

Scenario

➢ An occupier wants to reduce the reliance on a single headquarters building and implement a dispersed occupancy strategy.

Opportunity

➢ Reduce real estate costs by shrinking HQ location and taking smaller hubs across a city, region or country. Typically, these would be in lower cost locations.
➢ Access talent and reduced labor costs in alternative geographical locations.
➢ Improve work/life balance of employees, reducing commuting times, increased quality of life and reduced living expenses.
➢ Maintain central flagship HQ, but reduce the amount of space.

Considerations

➢ Ensuring the consistency of workspace quality across a distributed office portfolio.
➢ Operational and management considerations of a high number of locations.
➢ Outsourcing the delivery of these locations can reduce operational burden, improve workplace environment and lower lease liability.
MOBILITY PASS

Scenario

› An occupier has teams or individuals who work remotely or travel frequently. For example, employees who work from clients’ offices, on the road, from home or even cafés.

Opportunity

› Membership to a network of drop-in spaces across a region.
› Access to professional workspaces can improve efficiency and productivity for remote workforce.
› Ability to reduce physical office portfolio.
› Reduced fixed property expenses; memberships are highly flexible.

Considerations

› Employees need to have technology that enables them to work remotely.
› There are a variety of local and regional platforms in the market. However, Colliers has aggregated a range of operators to deliver the Colliers Mobility Pass, the only global platform. Learn more here.
CONSIDERATIONS FOR ASSET OWNERS

The impact the type of operator agreement has on asset valuation.

The topic of flexible workspace valuation has been of interest to investors, asset owners, operators and debt providers alike, as the effects of COVID-19 have amplified the need for a clear and consistent approach to valuation, as the sector comes under scrutiny. Currently, there is a lack of hard data, a lack of evidence, and a lack of certainty regarding what form of agreement would best fit assets and operators, as well as drive value.

In late 2019, the RICS, a leading global organization to promote and enforce standards in building valuation amongst other areas, produced a paper titled “Valuation of flexible workspace,” which most in the sector assumed would signpost the methodology and create a standard for the sector. While there is no formal methodology detailed by the RICS, the paper warned of the pitfalls of valuations and advised caution to those without any experience in the sector.

The most common questions we receive from our investor clients relate to the types of agreements in the market and how they impact their valuations, particularly when seeking debt. No conversation on the topic of agreements between asset owner and operator is ever the same. It is true that flexible workspace assets are generally operated using one of four delivery models, but outside of a lease it’s rare that we see the exact same deal structure more than once.

We have found that the “science” of valuation is to reach a consensus between the investors, operators and debt providers in any deal. This is the case in each of the four main bases of value.
THE VANILLA LEASE

The covenant and surety offered by the tenant (operator) is the main factor that will impact valuation. We would also factor in the variable nature of that tenant’s base of income, i.e. its members and what the strength of their covenant might be.

These three additional valuation bases should be assessed on the trading potential of the asset.

OWNER OPERATED

The EBITDA of a well-run asset can be comfortably above 200% of the market rent of the asset on a vanilla lease basis. While there is limited evidence in the market, in early 2020 the sentiment was that there would be a high volume of M&A activity.

Assets that are owner operated could fundamentally be sold to an alternative operator as a growing concern, or to an investor with a view to either self-delivery (which is rare) or inserting the same or an alternative operator on a management agreement.

The market rent element of EBITDA is generally “safe” for a good quality asset that has reached operational maturity. It is the sustainability and future growth potential of the top slice element (the EBITDA over and above the market rent) that dictates the yield that should be applied to this element.

HYBRID LEASE

These agreements are becoming more popular. They generally involve a certain level of base rent (let’s assume 50% of the market rent), with a percentage of turnover/EBITDA element on top. They are considered to provide security to the owner on the basis that half of the market rent is guaranteed.

This creates another layer to the top-slice method and, again, the yields adopted should reflect the historic trading levels or the trading potential of the asset. A good understanding of how these assets operate is key to determining the appropriate yields, as well as the quality of the asset itself.
MANAGEMENT AGREEMENTS

These operational agreements offer the least security of income to the owner; however, they also offer the greatest potential returns of the non-self-delivered options. Again, valuing these agreements has to be done with regard to the sustainability of the income.

The main issue from a valuation perspective is the real lack of evidence in the market. Where deals have taken place, there has been limited visibility over the actual trading figures, and therefore the returns for the investor.

There is an argument that suggests, from an operational perspective, that management agreements are in fact favorable to a vanilla lease given that some flexible workspace operators have a history of terminating leases prior to natural expiry where the market has moved. This leaves an operational gap that would be less likely to happen under a management agreement.

Finally, some investors see value in having asset management opportunities from having a management agreement rather than a lease.
VALUATION ISSUES

There is an element of uncertainty regarding valuation during the period prior to the maturity of the operation for assets on both a hybrid lease and management agreement. We have found that the concern of many investors is that over this period any valuation for debt purposes will not truly reflect the future potential of the agreement.

In the hospitality sector, the Fair Maintainable Trading (FMT) level is typically adopted. Only with a detailed understanding of the operator’s projections and what a FMT can reasonably look like for that particular asset and location can one reflect the attributes of the agreement in place. This is an agreement that could result in strong returns for the investor, and therefore must be more valuable to an asset owner than having vacant possession.

Another issue surrounds the capex contribution. The investment has to be reflected in the valuation; however, this makes it even more important to demonstrate the future benefit to the asset owner. This can only be the case if the buildout is transferable and another operator could trade successfully from the premises. Without the ability to assess the trading potential, the impact of the capex on the valuation would make these agreements unviable unless the assets reach maturity on day one, which is unrealistic.

When a hybrid lease or management agreement is in place, an investor is unlikely to view this as held with vacant possession, so why should a valuer? At the same time, an investor is not going to assume that these agreements alone are going to be more valuable (without proof of trading levels) than a vanilla lease. Where the flexible workspace element of an asset is only one part of a multi-tenanted asset, an investor may well see the additional benefits to the rest of the building – this benefit is likely to materialize through a shortening of assumed leasing/re-leasing periods as well as tenant retention. While any valuer would not be able to quantify this benefit, it provides further weight to the argument that a more positive approach (rather than vacant possession) should be adopted.

This again is where the valuer must reflect the approach of an investor. It is then the duty of the valuer to demonstrate this to the debt provider in their report, thereby completing the triangle.

The challenge presented to valuers by the emergence of such a diverse range of deal structures and assets is still significant; however, having an understanding of how mature flexible workspace assets operate and generate income is vital to analyzing them as an investment.
U.S. FLEXIBLE WORKSPACE MARKET OVERVIEW

In this section of our report, we examine the scale and location of flexible workspace in the U.S. This includes establishing current flexible workspace inventory and how this has shifted over the past 18 months, including the rate of growth and its distribution across the U.S. In addition, we establish the costs charged for flexible workspace and who the leading operators are.

A note on methodology: for this latest research, we have expanded our coverage to 28 metro office markets, looking at both central business district (CBD) and suburban locations. In our prior U.S. flexible workspace report, published in early 2019, the survey base was comprised of 19 leading CBD markets only.

Accordingly, any reference to data at a national level represents the sum of the 28 markets surveyed. Similarly, this total is used as the base when establishing growth rates and market share. Data covering this survey base was first established in Q4 2018.

FLEXIBLE WORKSPACE: TOTAL INVENTORY

Total flexible workspace inventory across our survey sample was 62.5 million square feet as of Q2 2020. CBD markets account for 41.1 million square feet of this total (66%), with the remaining 21.4 million square feet (34%) located in the suburbs.

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41.1 MSF CBD + 21.4 MSF SUBURBAN
= 62.5 MSF TOTAL
```

GRAPH 1: U.S. FLEXIBLE WORKSPACE INVENTORY
SUM OF 28 LEADING U.S. METRO OFFICE MARKETS AT Q2 2020

Source: Colliers International
FLEXIBLE WORKSPACE: 
SHARE OF OFFICE INVENTORY

For all the attention given to flexible workspace, it represents only a small amount of total office stock – just 1.5% as of Q2 2020, compared with 1.1% in Q4 2018. Flexible workspace inventory growth has slowed. Following increases of 20 basis points in both the first and second halves of 2019, there was no increase in inventory share in the first half of 2020 as operators shelved expansion plans due to COVID-19. There has also been some retrenchment.

On a market-by-market basis, Manhattan continues to have a greater share of flexible workspace in its inventory than the other 27 cities highlighted in this report. Share of inventory in Manhattan stands at 3.1%, up from 2.1% two years earlier.

Combined inventory share in the other top 10 flexible workspace markets (Atlanta, Boston, Chicago, Denver, Los Angeles, Miami, the San Francisco Bay Area, Seattle and Washington D.C.) mirrors overall trends, standing at 1.5% in Q2 2020 up from 1.1% in Q4 2018. Flexible workspace accounts for just 0.9% of overall inventory in the 18 secondary markets. However, this represents a 50% increase from the Q4 2018 share of 0.6%.

The future of work and workplace can be encapsulated in one word: ubiquity.
Both companies and employees are leading a movement together in which the ability to work from where and when one is required to based on their daily needs is becoming the norm.

Wayne Berger
CEO, Americas, IWG

TOP 10 MARKETS BY 
SHARE OF INVENTORY

1 MANHATTAN
2 SAN FRANCISCO BAY AREA
3 BOSTON
4 LOS ANGELES
5 CHICAGO
6 WASHINGTON D.C.
7 SEATTLE
8 DENVER
9 ATLANTA
10 MIAMI
### TABLE 1: FLEXIBLE WORKSPACE: SHARE OF OFFICE INVENTORY (%)

<table>
<thead>
<tr>
<th></th>
<th>Q4 2018</th>
<th>Q2 2019</th>
<th>Q4 2019</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>2.4%</td>
<td>2.8%</td>
<td>3.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Other Top 10 Markets</td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Secondary Markets (18)</td>
<td>0.6%</td>
<td>0.8%</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>Total, All Metros</strong></td>
<td><strong>1.1%</strong></td>
<td><strong>1.3%</strong></td>
<td><strong>1.5%</strong></td>
<td><strong>1.5%</strong></td>
</tr>
</tbody>
</table>

*Source: Colliers International*

On a market-by-market basis, there are seven markets where flexible workspace inventory share is above the survey average of 1.5%. All of these are in the top 10: Manhattan, Miami, Boston, Los Angeles, Seattle, the San Francisco Bay Area and Denver.

### GRAPH 2: U.S. FLEXIBLE WORKSPACE: SHARE OF OFFICE MARKET INVENTORY

*Source: Colliers International*
LOCATION OF FLEXIBLE WORKSPACE

Manhattan has by far the largest amount of flexible workspace inventory of any single office market in the U.S., currently standing at 16.2 million square feet equivalent to 26% of the survey total.

Besides Manhattan, the largest share of flexible workspace inventory (47.4% of total) is located in the other top 10 markets at 29.6 million square feet. All nine of these markets have more than two million square feet of flexible workspace inventory, led by the San Francisco Bay Area (5.4 million square feet), Boston (4.3 million square feet) and Los Angeles (3.9 million square feet).

The secondary markets account for 26.6% of flexible workspace inventory, at 16.6 million square feet. Six of these 18 markets have over one million square feet of flexible workspace: Dallas, Houston, Philadelphia, Minneapolis, San Diego and Phoenix.

<table>
<thead>
<tr>
<th>Table 2: Location of Flexible Workspace in the U.S. (MSF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>Manhattan</td>
</tr>
<tr>
<td>Other Top 10 Markets</td>
</tr>
<tr>
<td>Secondary Markets (18)</td>
</tr>
<tr>
<td>Total, All Metros</td>
</tr>
</tbody>
</table>

Source: Colliers International
GROWTH IN FLEXIBLE WORKSPACE

Flexible workspace inventory grew by 36.5% from Q4 2018 to Q2 2020. Growth was strongest in the secondary markets, at 38.3%, compared with 37.7% in the other top 10 markets and 31.7% in Manhattan. This is to be expected given the greater maturity of the flexible workspace concept in Manhattan and other large markets. The greater growth rate in the secondary markets represents both national providers expanding their footprint and the emergence of local operators.

Growth in flexible workspace has decelerated in the past 12 months, particularly in the first half of 2020 with multiple markets posting zero or marginal changes in inventory during this period.

Flexible workspace inventory was still growing at a healthy clip in the first half of 2019 with an increase of 20.5%. This slowed to 11.4% in H2 2019 and just 1.6% in H1 2020. The other top 10 markets saw minimal growth of only 0.7% in the first half of 2020, compared with growth of 2.5% in both Manhattan and the secondary markets.

More than half (16 of 28) of markets surveyed have seen their flexible workspace inventory increase by greater than the overall rate of 36.5% between Q4 2018 and Q2 2020. Growth in the top 10 markets was led by Los Angeles (69.8%), Miami (49.2%) and Seattle (45.5%). Secondary markets with the highest growth rates include Phoenix (92.8%), Dallas (82.8%) and Pittsburgh (60.5%).

Two major markets, Chicago and Washington D.C., underperformed the overall growth rate by a fair margin, 12.2% and 16% respectively. However, these markets were early adopters of the flexible workspace concept and rank fifth and sixth respectively in terms of total square footage.

WHAT’S THE COST OF FLEXIBLE WORKSPACE?

We examined three usage options in terms of the cost of flexible workspace per month: shared desk, dedicated desk and a private single-seat office. While we have provided the most recent quoted costs below, it should be noted that, like rental rates in the wider office market, operators are revaluing pricing and strategy in the face of the COVID-19 pandemic.

As would be expected, given the mostly higher office rents in downtown locations, average CBD flexible workspace costs are above those in the suburbs. Based on average shared desk pricing, flexible workspace costs are 8% higher in CBD locations.
TABLE 3: FLEXIBLE WORKSPACE: INVENTORY GROWTH

<table>
<thead>
<tr>
<th></th>
<th>H1 2019</th>
<th>H2 2019</th>
<th>H1 2020</th>
<th>Cumulative Change Q4 2018-Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>17.1%</td>
<td>9.7%</td>
<td>2.5%</td>
<td>31.7%</td>
</tr>
<tr>
<td>Other Top 10 Markets</td>
<td>22.3%</td>
<td>11.8%</td>
<td>0.7%</td>
<td>37.7%</td>
</tr>
<tr>
<td>Secondary Markets (18)</td>
<td>20.8%</td>
<td>11.7%</td>
<td>2.5%</td>
<td>38.3%</td>
</tr>
<tr>
<td><strong>Total, All Metros</strong></td>
<td><strong>20.5%</strong></td>
<td><strong>11.4%</strong></td>
<td><strong>1.6%</strong></td>
<td><strong>36.5%</strong></td>
</tr>
</tbody>
</table>

Source: Colliers International

GRAPH 3: FLEXIBLE WORKSPACE: AVERAGE COSTS ($/MONTH)

AVERAGE OF 28 LEADING U.S. METRO OFFICE MARKETS

Source: Colliers International
Within this overall framework, fees for flexible workspace can vary considerably from market to market. However, cost differentials have narrowed as the flexible workspace market has matured and the leading operators have solidified. Markets with underlying high office rents and low vacancy still tend to have higher flexible workspace fees. It will be telling to see how fees hold up now that the office market has entered into a period of rising vacancy with downward pressure on rents.

As of Q2 2020, San Francisco has the highest flexible workspace costs of all the markets in our survey. Single-seat office costs are also notably higher in Manhattan and Washington D.C. Outside of the top 10, Austin is the most expensive secondary market, which reflects its strong growth and increased desirability as a location for tech firms.

In the wake of COVID-19, global enterprises are transitioning swiftly toward a just-in-time, on-demand workspace model for employees. Providing a global network of high-quality workspaces accessible through a frictionless technology experience will be key to supporting the enterprise users of tomorrow.

Nick Worswick
Chief Sales Officer, WeWork
How does the cost of flexible workspace compare to traditional office space? Assuming a footprint of 60 square feet, we have compared fees for a dedicated desk against the same amount of office space. The average ratio of an annual dedicated flexible workspace desk to conventional office rents is 2.1:1. It is lowest in Manhattan at 1.4:1 and highest in the secondary markets at 2.4:1. However, it should be noted that floorspace allocations in traditional office space are significantly higher than the 60 square feet/worker in flexible workspace, typically ranging from 150 to 200 square feet.

The higher ratio in secondary markets indicates lower price sensitivity to flexible workspace costs in such markets, with clients willing to pay more for the flexibility these facilities have to offer. In secondary markets, firms may be testing out a new location before considering whether to sign a longer-term office lease.

### TABLE 4: COST COMPARISON: DEDICATED FLEXIBLE WORKSPACE DESK VS. EQUIVALENT CONVENTIONAL OFFICE SPACE

<table>
<thead>
<tr>
<th></th>
<th>Average Class A Office Rent/SF</th>
<th>Average Dedicated Desk Fee/Year</th>
<th>Equivalent Flexible Workspace @ 60SF</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhattan</td>
<td>$90.70</td>
<td>$7,500</td>
<td>$5,442</td>
<td>1.4</td>
</tr>
<tr>
<td>Other Top 10 Markets</td>
<td>$53.46</td>
<td>$5,869</td>
<td>$3,208</td>
<td>1.8</td>
</tr>
<tr>
<td>Secondary Markets (18)</td>
<td>$34.45</td>
<td>$5,058</td>
<td>$2,067</td>
<td>2.4</td>
</tr>
<tr>
<td>All Cities</td>
<td>$43.20</td>
<td>$5,386</td>
<td>$2,592</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Colliers International

### WHO ARE THE LEADING OPERATORS IN TOP 28 U.S. MARKETS?

**#1**

**WeWork**

27.7 MSF | 376 Locations | Avg. size 73,670 SF

**#2**

**IWG International Workplace Group**

20.9 MSF | 1024 Locations | Avg. size 20,430 SF

**> 1 MSF PORTFOLIOS**

<table>
<thead>
<tr>
<th></th>
<th>MSF Leased</th>
<th>Number of Sites</th>
<th>Avg SF per Site</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KNOTEL</strong></td>
<td>3.2</td>
<td>133</td>
<td>24,060</td>
</tr>
<tr>
<td><strong>INDUSTRIOUS</strong></td>
<td>2.7</td>
<td>82</td>
<td>61,364</td>
</tr>
<tr>
<td><strong>Novel Coworking</strong></td>
<td>2.7</td>
<td>32</td>
<td>84,375</td>
</tr>
<tr>
<td><strong>Convene</strong></td>
<td>1.4</td>
<td>27</td>
<td>51,852</td>
</tr>
</tbody>
</table>

Source: Colliers International
OUR RESOURCES & TOOLS

A GLOBAL NETWORK
Colliers Mobility Pass

The Colliers Mobility Pass enables occupiers to supplement their owned and leased offices with a global network of more than 5,000 on-demand, flexible spaces for one monthly price per employee.

The application brings the simplicity of a single vendor solution to access a wide variety of on-demand space around the world.

- 5,000 locations
- 70 countries
- 1,600 cities
- 670+ brands
- Add new workspaces on-demand
- +100 new locations every month
- Long-term growth aiming for a network of 20,000 locations within 3 years
- 1 agreement & 1 bill

Learn more
Get started

PORTFOLIO DIAGNOSTIC

We help clients optimize their use of flexible workspaces. We understand the underlying business drivers that inform a flexible workspace strategy and have built a five step portfolio diagnostic that unearths these opportunities.

The diagnostic considers key business drivers combined with market supply data to score locations by viability for a flexible workspace solution.

<table>
<thead>
<tr>
<th>STEP</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>We analyze key business drivers to score locations by their business case for flexibility and assign each location a ‘flex score’.</td>
</tr>
<tr>
<td>2</td>
<td>We identify target locations for flexibility based on the highest overall scores.</td>
</tr>
<tr>
<td>3</td>
<td>We utilize our global research to rank the maturity of flexible workspace supply in the target markets (‘supply score’).</td>
</tr>
<tr>
<td>4</td>
<td>We overlay the ‘flex score’ with the ‘supply score’ to grade all the opportunities by combined score.</td>
</tr>
<tr>
<td>5</td>
<td>We provide the client with a set of recommendations along with both qualitative and quantitative impacts.</td>
</tr>
</tbody>
</table>

Learn More.
CONCLUSION: KEY TAKEAWAYS

- **Demand for flexible workspace is on the rise**: Increased demand for flexible workspace will be driven by occupiers seeking to manage uncertainty and minimize CAPEX post COVID-19.

- **A choice-based model will emerge**: Occupiers are looking to deploy a choice-based, network-driven approach to support flexibility in their operations by combining the four types of workplaces in their portfolios: headquarters, satellites, on-demand space and work-from-home.

- **Operators are managing post-pandemic stress by rebalancing portfolios**: Strategies include closing under-performing locations, converting leases to management agreements and reviewing opportunistic expansion.

- **Flexible workspaces will adapt to the new normal**: Operators will see maturity, sustainability, standardization and the emergence of new technologies to support on-demand workspaces.

- **Health and safety will become paramount**: Enhanced protocols for health and safety will be critical for operators to appease current and existing members. Additionally, there will be a shift in occupier demand from shared to private workspaces.

- **Growth in supply has slowed down**: Inventory in flexible workspace increased by 36.5% over the past 18 months; however, growth increased by only 1.6% in first half of 2020.

ABOUT COLLIERS INTERNATIONAL

Colliers International (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter@Colliers or Linkedin.
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