



CommercialEdge

# National Office Report

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# Coworking Operators Close Locations, But New Opportunities Arise

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- The national average full-service equivalent listing rate in January was \$38.32 per square foot, an increase of 26 cents from December. The national vacancy rate increased 40 basis points to 14.6%.
- Office-using employment sectors continue to weather the storm better than others, as many of office-using jobs have transitioned seamlessly to remote work. This marks a stark contrast from past recessions, when office-using job losses were more severe than those in other sectors. For instance, the dot-com crash and the Great Financial Crisis were facilitated by office-using industries, which consequently took the brunt of the damage. In 2020, however, office-using sectors performed relatively well, and office-using employment is now on track to recover to pre-pandemic levels much sooner than the rest of the labor market. The question now is whether office-using employment will continue to be an indicator of demand for office space.
- While it will take a long time to fully understand how the pandemic reshaped the office industry, we are already beginning to see trends emerge in coworking. WeWork has closed more than 100 locations since the pandemic began and had to renegotiate leases on dozens of other spaces. The business model—also employed by many of its competitors—of leasing expensive space in the city center and renting it out to users at a profit was likely not sustainable for a sharp economic downturn, and certainly not one that was instigated by a pandemic. Going forward, we expect franchising and revenue-sharing agreements to become more common for coworking as the industry looks for ways to attain both profitability and stability.
- Another coworking trend that has gained prominence in the last few months is real estate service firms operating coworking spaces. CBRE's Hana recently opened its third location in the U.S. and plans to open three more before the first quarter is over. Newmark made headlines when it agreed to purchase Knotel after the coworking firm filed for Chapter 11 bankruptcy protection. JLL took over the flagship space of the now defunct MakeOffices at The Wharf in Washington, D.C. That real estate service firms are looking to operate their own coworking spaces while so much of the industry is in flux suggests coworking will be an integral element of the recovery. Businesses may be hesitant to sign long-term leases, and coworking could bridge that gap.

