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National Office Report

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The Coworking Rebound

- In the early days of the pandemic, some speculated that shared space was dead. Most historically office-based employees were working from home and remained averse to sharing space with others coming out of a pandemic. Today, however, as the pandemic wanes and vaccines have proved effective at preventing serious illness, coworking has reemerged as a viable alternative. Shared space looks poised to grow in the future as an option to fill the gaps left by hybrid work and a cost-saving measure for tenants faced with inflationary and economic concerns.

- Increased demand for shared space is driving growth for the largest coworking firms. During its second quarter earnings call, WeWork reported its occupancy rate had risen to 72% during that quarter, equal to the pre-pandemic rate in the fourth quarter of 2019. Additionally, memberships for the coworking company grew 33% year-over-year and are now at an all-time high. IWG—which owns and operates Regus, Spaces and other brands—reported that it had for the first half of the year "system-wide revenue growth of 22.3% year-on-year, driven by strong demand for hybrid working."

- Yardi Matrix estimates that there are 117.5 million square feet of shared space, representing 1.7% of all office space. Most flex space is concentrated in a handful of markets, with more than a third of all such inventory in the top five markets and more than half in the top 10. Manhattan leads the way, with an estimated 15 million square feet of coworking space, nearly double that in second place Los Angeles, which has an estimated 7.9 million square feet. Rounding out the top five in estimated coworking footprints are Chicago (7.1 million square feet), Washington, D.C. (6.5 million) and Dallas (5.1 million). The market with the greatest estimated square footage as a percentage of total office inventory is Brooklyn (4.6%), followed by Miami (3.3%), Manhattan (3.1%), Los Angeles (2.2%) and Nashville (2.4%).

- We expect that flex space will continue to grow in prominence in coming years. Small and new firms will increasingly eschew traditional office leases for shared space as a cheaper and more flexible alternative to traditional leases. Medium and large firms that have embraced remote and hybrid work policies over the past two years will also look to coworking as a means to provide employees with meeting spaces, quiet work areas and amenities with lower total costs than traditional office space.