Research Report 2018

# Annual US Market Summary

Instant
RETHINKING WORKSPACE


# Contents

# Introduction

**The US market for co-working and flex space showed sensational growth in 2017 as the move towards more agile working gained pace.**

A key trend underpinning the US expansion is that growth is being driven not only by the giants of the industry but by entrepreneurial operators – with only one or two centers – that are creating very specific spaces for niche audiences. The top 10 operators in terms of total number of centers account for only 34% in what is a highly fragmented market.

## MARKET GROWTH

Growth has been dynamic across the US but the top three states with the most number of centers – New York, California and Texas – are still growing faster than the rest of the US with an average increase in supply of twelve percent compared to four percent elsewhere in the country. The increase in supply in these largest markets has performed well compared to the previous year as new entrants enter the market and existing operators expand. Business in these states is dominated by the cities of San Francisco, Los Angeles, New York City, Houston and Dallas. Continued growth in these mature markets shows that there is still appetite for additional supply of flexible workspace, that occupier demand is being maintained and that we are yet to reach full potential in the sector.

While the flex market is continuing to expand, the majority (51%) of the total number of centers are located in just five US states.

The top seven city markets still retain a third of flex space / co-working centers, and the top 20 contain more than 50% of the total market share.

> **"There is much more expansion to come across the US particularly in those cities outside the more established markets of NYC, LA and San Francisco. We strongly anticipate flex space growing proportionately as part of the CRE mix across the country,"** explained Michelle Bodick, Managing Director Sales & Marketing, The Americas at The Instant Group

## TYPES OF SPACE

There is now an estimated 80m sq feet of flexible space in the US, compared to 50 to 60m sq ft in the world's second largest market in the UK. The average size of center changes according to its profile according to its offer to the market - serviced offices are usually 19,000 sq ft, hybrid offices that combine both co-working and private offices are larger at 22,000 sq ft whereas the average co-working space is just 10,000 sq ft on average. Co-working operators are beginning to take on more space but the current business model is better served via the provision of smaller centers.



THERE IS AN ESTIMATED
80 MILLION SQ FT
OF FLEXIBLE SPACE IN THE US

NEW YORK, CALIFORNIA & TEXAS
ARE THE 3 FASTEST GROWING MARKETS

OVER 50%
OF ALL CENTERS ARE RUN BY
INDEPENDENT OPERATORS

## GROWTH OF THE INDEPENDENT OPERATOR

**A definitive element of this nascent sector is that more than half of all centers in the US are run by independent operators – this differs greatly compared to the other more mature flex space markets of the UK, France and Germany that tend to be dominated by the larger operators like Regus, Servcorp and WeWork.**

However the slow process of consolidation may have begun as the bulk of growth in the market during the last year came from operators with 10+ centers as they represented 58% of new centers during that time period. This has not deterred new entrants to the flex space market as they drove more than 30% of supply particularly in the more established markets of New York City, Los Angeles and San Francisco. The new entrants, in particular, seem to be driving the trend of 'niche-ification', providing spaces that cater to specific audiences and interest.

> **These are the two key trends that are dominating the flex market. The growth of the largest operators who control more than a third (34%) of the market.**

But also the market presence of the committed "indie" operators – 93% of operators in the US are independent operators, and this number has still increased in the past 12 months, albeit only by 1%.

"THE TOP 10 OPERATORS CONTROL 34% OF THE MARKET"



COMMONGROUNDS
CARLSBAD, USA



Image © Commongrounds

# Which states are driving growth in the US market?

**The most expensive states are Colorado and Massachusetts with average desk rates at $1250 and $1213, respectively. New York State retains a strong average desk rate of $1063, which is a slight decrease on 2016, due to the distribution of additional centers across the state with lower prices outside of Manhattan. The average desk rate across the US was $763* for the past 12 months up from $747 the prior year.**

**Colorado is showing a high desk rate average as Denver has one of the highest city workstation rates in the US, at $1250.**

**New York City is historically the most expensive city location by desk rate, but this average is lowered by centers outside of the CBD and across the five boroughs with lower pricing models.**

*Desk rates include the amount to procure one desk per month and is the industry standard across the flexible workspace market.

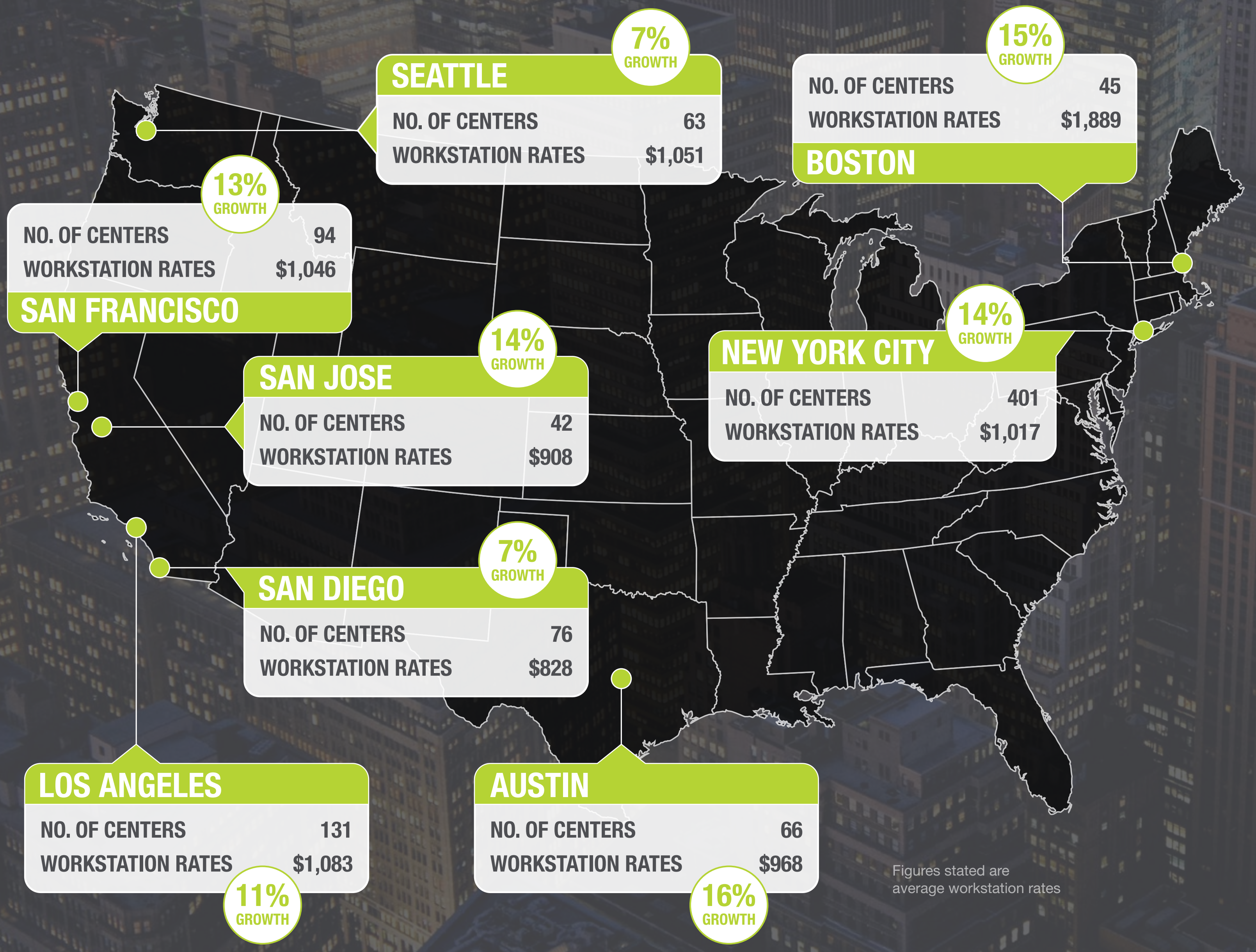
But it is the emerging markets in the US that have seen considerable growth in desk rates, with Missouri, Louisiana, and New Hampshire showing growth of between 10-12%. In the top 10 US states by workstation rate, the uplift has also been accompanied by an average 12% increase in supply of space. So while supply to the market is still concentrated in the three key states, demand in emerging markets across the country appears robust.

In the largest markets – Texas, California and New York State – the supply of centers has continued to grow by an average of twelve percent – but this has not been matched by average desk rates, which have slowed slightly compared to last year's growth. Increase in demand has remained relatively high in these key states, but with price increases cooling a little, it may indicate that supply is finally beginning to catch up with demand.

| STATE | CENTERS | | | DESK RATE - USD | | |
|---|---|---|---|---|---|---|
| | NUMBER OF CENTERS 2017 | NUMBER OF CENTERS 2016 | CENTER GROWTH | AVERAGE DESK RATE 2017 | AVERAGE DESK RATE 2016 | DESK RATE GROWTH |
| ALABAMA | 22 | 20 | 10% | 602 | 563 | 7% |
| ARIZONA | 102 | 93 | 10% | 525 | 510 | 3% |
| ARKANSAS | 15 | 14 | 7% | 530 | 538 | -1% |
| CALIFORNIA | 912 | 823 | 11% | 1079 | 1028 | 5% |
| COLORADO | 147 | 135 | 9% | 1250 | 1255 | 0% |
| CONNECTICUT | 55 | 51 | 8% | 834 | 874 | -5% |
| DISTRICT OF COLUMBIA | 76 | 66 | 15% | 969 | 1104 | -12% |
| FLORIDA | 398 | 367 | 8% | 806 | 787 | 2% |
| GEORGIA | 130 | 121 | 7% | 709 | 627 | 13% |
| HAWAII | 12 | 10 | 20% | 850 | 688 | 23% |
| ILLINOIS | 201 | 169 | 19% | 956 | 1026 | -7% |
| INDIANA | 55 | 52 | 6% | 542 | 593 | -9% |
| IOWA | 12 | 11 | 9% | 581 | 538 | 8% |
| KANSAS | 20 | 18 | 11% | 600 | 470 | 28% |
| KENTUCKY | 24 | 22 | 9% | 537 | 566 | -5% |
| LOUISIANA | 28 | 25 | 12% | 681 | 621 | 10% |
| MARYLAND | 70 | 69 | 1% | 867 | 1014 | -14% |
| MASSACHUSETTS | 119 | 112 | 9% | 1213 | 1061 | 14% |
| MICHIGAN | 63 | 57 | 11% | 694 | 677 | 3% |
| MINNESOTA | 46 | 43 | 7% | 990 | 993 | 0% |
| MISSISSIPPI | 12 | 11 | 9% | 450 | 422 | 7% |



| STATE | CENTERS | | | DESK RATE - USD | | |
|---|---|---|---|---|---|---|
| | NUMBER OF CENTERS 2017 | NUMBER OF CENTERS 2016 | CENTER GROWTH | AVERAGE DESK RATE 2017 | AVERAGE DESK RATE 2016 | DESK RATE GROWTH |
| MISSOURI | 54 | 49 | 10% | 832 | 746 | 12% |
| NEBRASKA | 18 | 16 | 13% | 624 | 641 | -3% |
| NEVADA | 100 | 87 | 15% | 927 | 855 | 8% |
| NEW HAMPSHIRE | 17 | 15 | 13% | 624 | 565 | 10% |
| NEW JERSEY | 118 | 102 | 16% | 780 | 764 | 2% |
| NEW MEXICO | 18 | 16 | 13% | 632 | 594 | 6% |
| NEW YORK | 475 | 415 | 14% | 1063 | 1155 | -8% |
| NORTH CAROLINA | 93 | 87 | 7% | 850 | 892 | 5% |
| NORTH DAKOTA | 10 | 9 | 11% | 239 | 211 | 13% |
| OHIO | 92 | 80 | 15% | 668 | 677 | -1% |
| OKLAHOMA | 26 | 24 | 8% | 716 | 551 | 30% |
| OREGON | 70 | 66 | 6% | 863 | 986 | -12% |
| PENNSYLVANIA | 116 | 109 | 6% | 975 | 952 | 2% |
| RHODE ISLAND | 26 | 24 | 8% | 622 | 602 | 3% |
| SOUTH CAROLINA | 42 | 34 | 24% | 583 | 551 | 5% |
| TENNESSEE | 69 | 63 | 10% | 820 | 678 | 21% |
| TEXAS | 473 | 425 | 11% | 926 | 965 | -4% |
| UTAH | 37 | 36 | 3% | 699 | 645 | 8% |
| VIRGINIA | 96 | 89 | 8% | 850 | 891 | -5% |
| WASHINGTON | 106 | 100 | 6% | 914 | 943 | -3% |
| WISCONSIN | 35 | 31 | 13% | 560 | 547 | 2% |




Figures stated are average workstation rates

# How is supply changing across the US city markets?

**Cities such as New York, Los Angeles and San Francisco have seen the largest growth in number of centers. New York City experienced a 14% increase in centers which against an already large base, saw an additional 49 centers open last year.**

**Boston and Austin saw a 15% and 16% respective growth of centers whilst desk rates remained static, as demand failed to catch up with the large increase in supply.**

San Jose has seen the largest growth in desk rate pricing; a 16% increase shifting the average price up to $908. San Diego isn't far behind with a desk rate growth of 15%. Both of these cities have also seen increases in the supply of centers over the past year, with rates that are above the national average, hinting at the strength of the market in these cities.

A number of cities have average desk rates above $1,000 including Boston, New York City, San Francisco, Seattle, and Los Angeles. Boston is the most expensive city with an average desk rate of $1,889.

**New York City has the highest number of centers (401) followed by Los Angeles (131) and San Francisco (94).**

The strength in desk price in Austin and San Diego remained strong throughout 2017, but rates in Boston, New York, and Los Angeles have fallen slightly due to a number of factors, including increased supply and additional centers opening outside of the main CBD's with lower desk rates.

# High growth cities

## SAN FRANCISCO

This market hosts multiple accelerators for start-ups and, as might be expected, many centers are targeting lots of tech start-ups. The supply of flex space in the city includes many other specialist centers, such as those for "professional fiction and nonfiction writers, filmmakers, print and radio journalists, and those who publish/produce new media;" Co-living alongside co-working – start-up Basecamp and even Outdoor co-working – "Campsyte."

## SAN JOSE

San Jose continues to see steady growth both in demand and center numbers as we see flexible working expand out of San Francisco and across the wider Bay area. Regus remains the largest individual supplier of flexible space within the city but operators such as The Pad and Mindrome are increasingly providing space out of the CBD and into localized hubs.

## DALLAS

According to our data, Dallas has been dominated by the opening of hybrid centers over the past year with no pure co-working centers in 2016/7. Regus has been very active in the market and opening 'Spaces' locations, part of their new brand assault on the market. Serendipity Labs has also chosen Dallas for a center opening in 2018.

Image © Spaces

## AUSTIN

Austin is one of the top cities for center growth at 16% year-over-year. Impact Hub opened their second office in 2017 in North Lamar, complementing their existing center on Monroe St. WeWork also have a significant footprint in the city with four centers and more to come in 2018.

Image © WeWork, University Park, Austin

## BOSTON

Flexible working continues to increase in both Boston and the wider Cambridge area. A number of independent co-working centers opened in 2017, and WeWork now has five locations in the city (at the time of publication). Regus has the largest presence across the city and its focus remains in the financial district where they have a number of corporate tenants.

## WASHINGTON, DC

Six WeWork centers opened in 2017 in Washington, DC. The city has also seen several specialist centers with niche target audiences open including The Wing opening in Spring 2018, and other women-only spaces, and a lawyer-only destination, which have proved highly popular.


Image © The Wing

# Centers by operator type

**As the US has rapidly embraced the flexible workspace market, the average number of centers per operator is increasing across all different space types from serviced offices (executive suites), to pure co-working centers, and hybrid models that offer both forms of space. In short, operators have started to diversify the type of space they are offering to the market. We are also seeing a number of operators franchising their operating models to allow for faster expansion and to gain increased market share.**

There has been a marginal increase in the average number of centers per operator over the past year. In line with the trend towards nichification of service offering, co-working centers are more likely to be owned by independent operators.

"The local, independent co-working operator seems to have a strong association with their membership base and, as such, really understand the market drivers on a hyper local basis," explained John Williams, Head of Marketing at The Instant Group. "Their local market knowledge means they have the confidence to open space that really caters to a particular form of demand.




INDIE OPERATORS THAT HAVE GROWN SIGNIFICANTLY OVER THE LAST YEAR

| OPERATOR | 2016 CATEGORY | 2017/8 CATEGORY |
|---|---|---|
| The Yard | 5-9 centers | 10+ centers |
| Serendipity Labs | 1-2 centers | 10+ centers |
| Peachtree Offices | 3 centers | 4 centers |
| OffiCenters | 3-4 centers | 6 centers |
| Benjamin's Desk | 3-4 centers | 5-9 centers |
| Union Cowork | 1-2 centers | 5 centers |
| BizHaus | 1-2 centers | 3 centers |
| Village Workspaces | 1 centers | 2 centers |
| TKO Suites | 1-2 centers | 3 centers |
| Zen-Offices | 4 centers | 5 centers |
| The Port Workspaces | 1-2 centers | 3-4 centers |
| South Shore Business Center | 3 centers | 3 centers |
| Cross Campus | 1-2 centers | 3-4 centers |
| Industrious | 12 centers | 26 centers |
| Level Office | 10 centers | 17 centers |

# The growth of the niche operator

**FOUNDED IN 2011** — Serendipity Labs

Their mission is 'to deliver an upscale, hospitality-based workplace experience...'

Currently operate 17 locations, with 100 'under development' across the US.

**FOUNDED IN 2014** — Boxer Workstyle collaborative spaces

Hybrid flexible spaces launched by Boxer Properties.

Example of traditional leasing agents expanding into the flexible market.

**FOUNDED IN 2015** — Coterie Worklounge

The explosion of co-working in Seattle lead to the opening of 'Coterie Worklounge', which is described as an 'Elegant and comfortable work and meeting space.'

**FOUNDED IN SUMMER 2016** — Voyager

**"Clubhouse and co-working space for travel innovators"**

2011 • 2012 • 2013 • 2014 • 2015 • 2016 • 2017 • 2018 WHAT NEXT...

**FOUNDED 2011** — The Yard

**"Aims to be a more "mature" space i.e. solid walls not glass, no ping pong etc."**

**"Plans to double membership by the new year."**

Techcrunch article from May 2017

**FOUNDED IN 2013** — Industrious

Rapid expansion over the last 12 months, with 26 locations now open, soon to be followed by an additional nine by the summer of 2018.

**FOUNDED IN 2015** — Knotel

Mantra of "headquarters as a service" and recently announced a partnership with Newmark Knight Frank, with plans for wider-global expansion.

**"In less than 18 months, Knotel has raised $25 million in series A funding, and it's now in 15 locations around New York City (250,000 square feet). Within the past month, they've signed 93,000 square feet across five properties in Manhattan and Brooklyn."** – Forbes, May 2017

**FOUNDED IN 2016** — The Wing

The Wing opened in 2016 as 'a network of co-working and community spaces for women' and secured $32 million in series B funding from WeWork in late 2017.

With three locations in Manhattan and Brooklyn, the fourth center will open in Washington, DC in mid-2018.

# An average one year office lease by 2030?

convene

**We asked Ryan Simonetti, CEO at Convene, why he predicts that the average office lease term will approach one year by 2030.**

If the average life expectancy of a company today is just over seven years, it doesn't make sense to lease an office space for 10. That's why the modern workplace is already being disrupted. Long-term leases are often the unnecessary liability, especially if that lease is held within an undesirable work environment.

Occupiers are breaking their leases four years earlier because they need to move closer to where top talent wants to be. Employees no longer need to be under the same roof to accomplish work, and the rise of both the sharing economy and co-working are proving that we as providers, partners, and enablers must each play our part to stay relevant and better serve the accelerated needs of a more agile workforce – or face disruption ourselves.

Bill Clinton once famously said, "Ignore the headlines, follow the trend lines." When the majority of the built world hears about the shifts happening in commercial real estate, they tend to listen to the voice of the mainstream audience – how lofty the valuations of the co-working industry are, how much smarter a building is versus a Tesla, or even how much of a love/hate relationship there is between the creative class and their coffee shops.



ONE BOSTON PLACE, BOSTON
CONVENE

Image © Convene

**At Convene, we start with why.**

Why is the workplace really changing? What are the broader, underlying causes for the dramatic shifts in the way we work?

## 1. FROM A PERK TO AN EXPECTATION

In the Staples Second Annual 2016 Workplace Index, 64 percent of respondents said their workplace contributed to their stress levels. Another survey by Gensler found only one in four U.S. workers are in optimal workplace environments. Amenities are now the expectation. Once considered a "bonus space" for prospective tenants, it's quickly becoming the table stakes for anchor tenants. A well-recognized wellness partner (Equinox) and food provider (Eataly) within the building are the new must haves, and landlords who are not as knowledgeable in orchestrating these types of experiences within their buildings are leaning on experienced partners for help.

## 2. FROM SMART TO ANTICIPATORY

Only seven percent of workers said the office was their location of choice when they need to produce on the most important projects. Despite the plethora of new "smart" technologies made available to buildings, productivity is still sub-optimal. Some technologies are focused on helping landlords. Others are focused on helping occupiers. Very few actually talk to each other and are focused on delivering a better holistic experience for the true end user – the employee. The real opportunity is meeting the anticipated needs of talent, not the technological challenges of the landlord.

## 3. FROM CO-WORKING 'SPACES' TO HOSPITALITY-INFUSED 'PLACES'

A recent PWC study found that millennials, who will make up 50% of our workforce by 2020 – value choice, flexibility, and experiences at work as being more important than all other factors – including salary. Flexible office space is just the beginning of the transformation in the workplace. The next bounce of the ball needs to transform space-as-a-service (shared desks, meeting rooms and coffee stations) into an experience-first workplace platform that feels more like a lifestyle hotel – one that embeds generosity, care, and service for its end-users. The 'democratization' of the Googleplex and Apple Park will offer every company a new level of access – one that delivers amazing workplace experiences within the sharing model of office consumption.

We believe that flexible, lifestyle-powered office experiences will be a permanent part of the long-term workplace strategy. For landlords and tenants who chose to delay the trends in front of us, take heed, the office market as you know it will change overnight.

There's a Chinese proverb that states,

> **"When the winds of change blow, some build walls and others build windmills."**

Convene chooses to build windmills, and we hope that you choose to be part of the same journey too.

# What is flexible workspace & how is the model evolving?

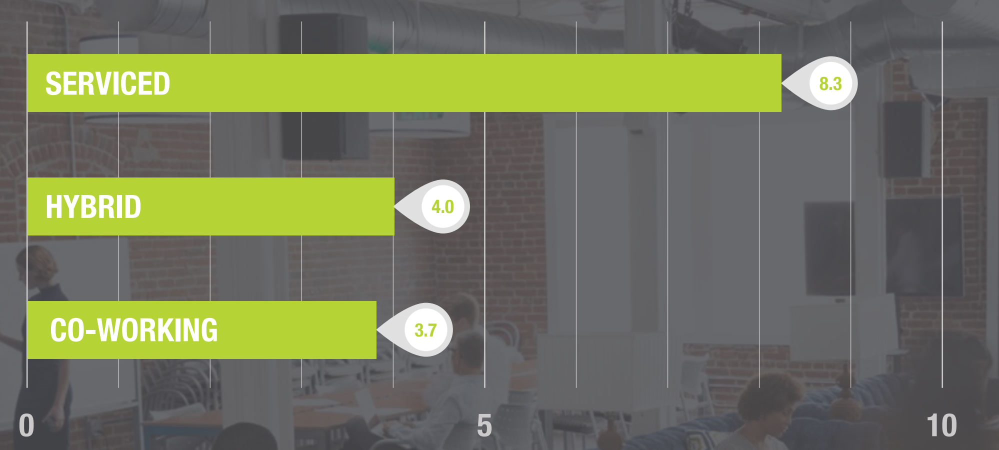
**The provision of co-working and hybrid space has grown over the past year as the market moves away from the more traditional serviced office / executive suite model. This trend has started to accelerate when looking at year-on-year changes to the market.**

Serviced offices (or executive suites) still dominate the market, providing the majority of space across the US, but the growth in supply of co-working and hybrid space (that offers both varieties) is accelerating.

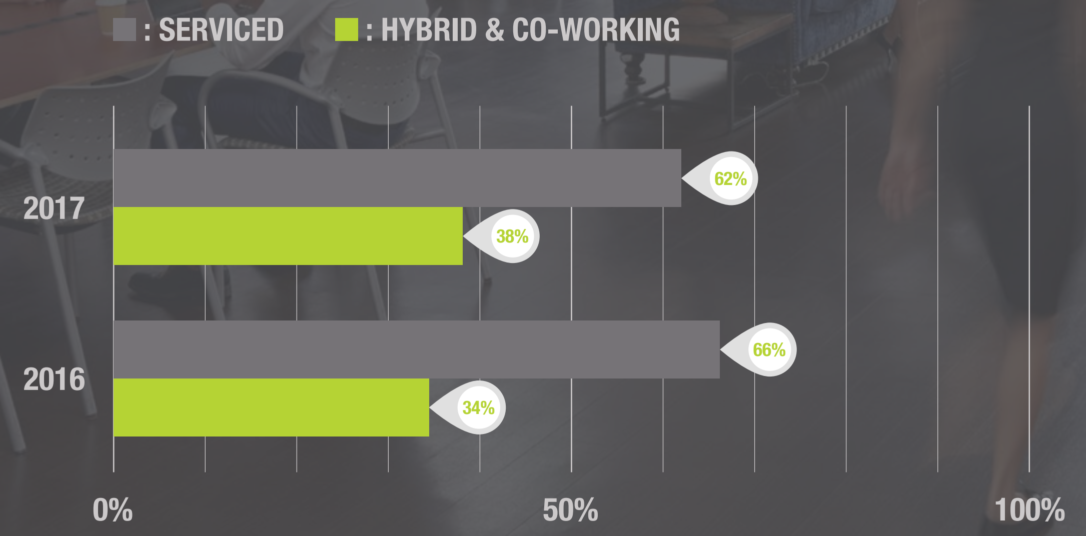
> "Users of flexible space are becoming increasingly familiar with shared office solutions and, as time moves on, the barriers between offices are starting to break down. In part this has been enabled by technology which offers better security around cloud and wireless communications, but it is also a social phenomenon in which exposure to other ways of working and other corporate cultures is increasing workers' ease in this environment."
>
> **MICHELLE BODICK**
> MD OF SALES & MARKETING AT THE INSTANT GROUP

This trend towards co-working is also highlighted by the average age – serviced offices / executive suites are, on average, more than eight years old but hybrid and co-working centers are at least half that. There is no doubt that co-working is the driving force in market growth, driving both consumer awareness of the options now available to them and business scrutiny of the sector.

AVERAGE AGE OF CENTERS




HOW THE MODEL IS EVOLVING



# Multi-city & state operators

It is the large city markets that are changing at the fastest rate reflected in their higher proportion of shared space.

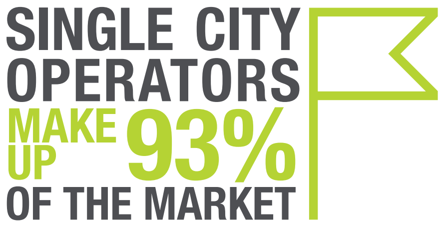
| | HYBRID & CO-WORKING | SERVICED |
|---|---|---|
| **Average proportion across the top 25 city markets** | **58%** | **42%** |
| **HIGHEST PROPORTION** | | |
| Seattle | 76% | 24% |
| Philadelphia | 60% | 40% |
| **LOWEST PROPORTION** | | |
| Orange County | 19% | 81% |
| Dallas Fort Worth | 26% | 74% |

The vast proportion of operators only operate from one city – only 151 operators have sites across multiple cities and that number has increased by 11% since our last survey.


Single city operators make up 93% of the market, and we listed 2,106 of them this year compared to 2,002 in the previous year. This again underlines the growth of the entrepreneurial proprietor of one or two centers. This links to growth in co-working centers which are more likely to be independent. The 94% of the market which consists of single city operators only run 53% of the total market for US flexible space, however.

There is a real sense in the market that it is easier to compete in your local market, where the drivers of occupier demand are better known and the relative value of property understood. This adds to the sense of small, organically grown businesses that give the market its distinct flavor and is adding to the awareness of specialist occupier demand.

Only half of those operators with centers in multiple cities are also present in multiple states (three percent) – when expanding their number of centers, operators seem more likely to choose locations in the same state.






"The abundance of operators and the diversity of offering is a real benefit to the US market as if offers clients so much choice; choice of type of occupancy but also the terms of occupancy. So much of the feedback we have from clients actively looking for space is to find an environment that suits the specific requirements of their business at their specific stage of growth.

In the past, there simply wasn't this variety of choice available but now that the market supply is increasing and diversifying, then clients are quickly becoming even more particular about their workspace choice. It seems remarkable that only a few years ago, companies were limited to only one or two forms of occupancy but we can only envisage that evolving rapidly now."

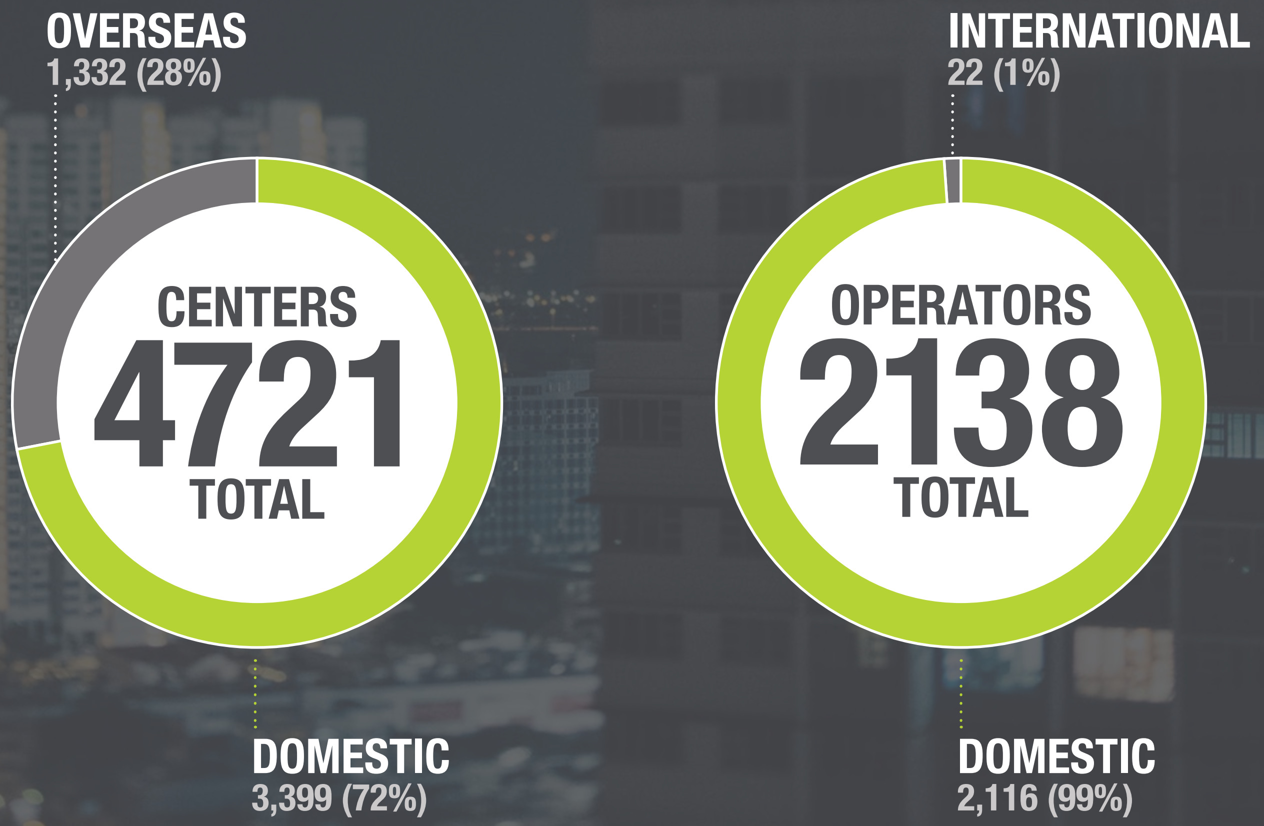
**TIM RODBER**
**CEO OF THE INSTANT GROUP**

# Operators of flexible and co-working space

**Given that the US market is one of the most mature of its kind, it is unsurprisingly dominated by domestic operators of space. 99% of operators in the US market are from that country.**

What is of interest, however, is that nearly 30% of centers are actually run by international operators – so the 22 international operators that Instant has listed in the US market run over 1,300 centers, amounting to 28% of the market.

## International vs. domestic



# Landlords and flexible workspace

## HOW ARE LANDLORDS RESPONDING TO DEMAND FOR FLEXIBLE WORKSPACE?

**Instant has surveyed a number of the largest US based landlords on an anonymous basis to better understand their view of the market.**

We asked a series of questions to assess the shift in the commercial real estate market and better understand the landlord response to occupier demand for flex space and whether it is viewed as a long-term trend.

## IS FLEXIBLE WORKSPACE / CO-WORKING IMPACTING YOUR BUSINESS?

**66% of respondents said that the trend towards flex space is extremely likely to impact their business.**

This is broadly similar to wider market perception of the shift to flexible / co-working space summed up in JLL's prediction that by 2030, 30% of all commercial office space will be consumed as 'flexible space.'

## DO YOU PROVIDE CO-WORKING SPACE IN YOUR PORTFOLIO CURRENTLY?

Only 33% of landlords who responded currently offer co-working space, and less than a third are considering providing flexible space in the future.

## WILL YOU BRING IN A THIRD PARTY TO RUN THIS SPACE?

67% of landlords who took the survey would use a 3rd party to operate/run the flexible space. The supply chain expertise and lead generation requirements that sit behind the workspace as a service model would place demands on many landlords that they are not positioned to meet.

The majority of landlords that we have interviewed that have an interest in the provision of flex space are looking to work in partnership to drive demand, fit out and operate the space.

## WHAT ARE THE OBSTACLES TO PROVIDING FLEXIBLE WORKSPACE WITHIN YOUR PORTFOLIO?

The number one obstacle cited by landlords was a perceived impact on profitability. However, with shorter lease terms inevitably affecting the long-term valuation of commercial buildings, the landlords surveyed indicated the need for diverse portfolios that mitigated the risk of short-term demand-led issues.

## DO YOU THINK YOU CAN ATTRACT CORPORATE OCCUPIERS TO CO-WORKING / FLEXIBLE SPACE WITHIN YOUR PORTFOLIO?

66% of landlords said it was likely or extremely likely they would be able to attract corporate occupiers to flexible workspaces if they were to introduce this type of space.

With occupiers placing greater importance on amenities, the survey asked occupiers to rank the importance of the following:

+

1. **Ultra-fast internet**
2. **Collaborative spaces**
3. **In-office amenities** (coffee shops/relaxation areas etc.)
4. **Shared facilities** (reception/gym/showers/cycle store etc.)
5. **Custom branding in the office space**

–

Landlords see that it is the practical elements of flexible space that are critical to it success – so fast internet, collaboration with other users and amenity provision. Branded space is deemed the least important element of space provision as for users it is a question of function over form, with speed to market and flexibility more important than brand considerations.

# How marketing in the flexible sector is changing?

**We analyzed the center descriptions for different spaces to see how they differed among the new operators, with centers that opened in 2016/17 compared to previous years.**

New sectors are much more likely to use the words “private”, “lounge” in their descriptions. Serviced spaces – more likely to use the words “professional” and “conference”. The previous reliance on the key terms based around availability and offers has been replaced by more focus on amenity provision in 2016/7.

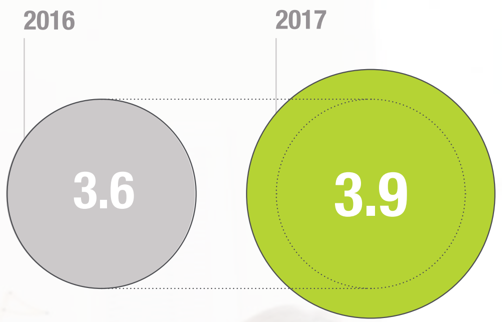

Image © The Instant Group

# The deal market is changing - what does it mean for the market?

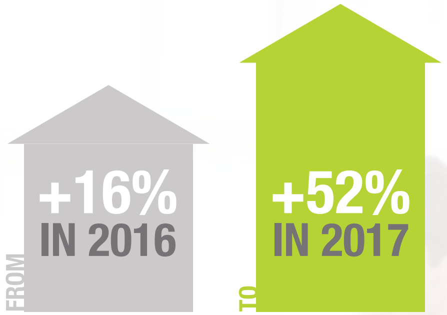
**In 2017, The Instant Group's data showed that more than a third of all deals across the US flexible workspace market have been for 12-18 months. There was a slightly higher proportion of 18 months+ deals in 2017 v 2016, with this trend driven by corporates staying in space for longer. Portfolio deals for 12+ months are up 10 percent over the last year which is indicative of the increasing adoption of this kind of space by larger, corporate occupiers.**

At the smaller end of the market, there was growth of month to month rolling deals over the last 12 months as operators also become more comfortable with occupiers taking super flex deals. In the past such deals would have been deemed relatively risky, but now with occupier demand as buoyant as it is, and awareness of these deals growing in the market place, they make up a growing trend towards super flex arrangements.

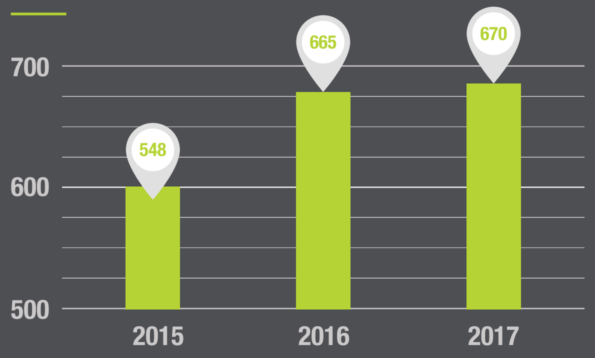
### NUMBER OF DESKS INQUIRY SIZE AVERAGE




### PORTFOLIO DEALS INCREASE




### 10+ DESK INQUIRIES




Average inquiry size for number of desks has increased to 3.9 in 2017 compared to 3.6 in 2016. There were more inquiries for 10+ desks over the past 12 months, with larger inquiries increasing by 2% year on year.

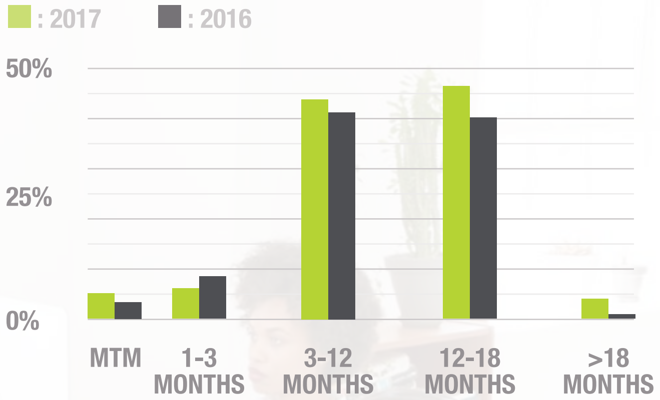
There are two key trends in the market which are representative of the move towards agility and a new responsiveness in the market – namely, the increase in rolling contracts, SMEs occupying space month to month so that they are lean and ready to respond to market conditions and, also, larger firms taking slightly longer contracts but in flex space.

Firms of all sizes now want the ability to react to market events and move fast. For smaller companies, this is represented by super-flex contracts and for their larger counterparts, it is committing to flexible workspace rather than taking a short lease.

**MICHELLE BODICK**
**MD OF SALES & MARKETING AT THE INSTANT GROUP**

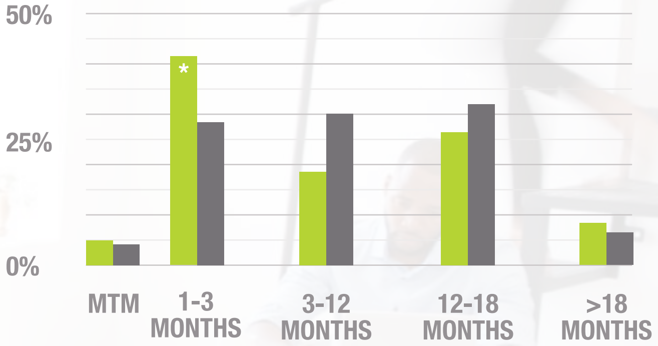
### LENGTH OF AGREEMENT / TERM

premier BUSINESS CENTERS




* MORE CO-WORKING TYPE SPACES AVAILABLE IN 2017

Regus



# Conclusion - Competition is here to stay

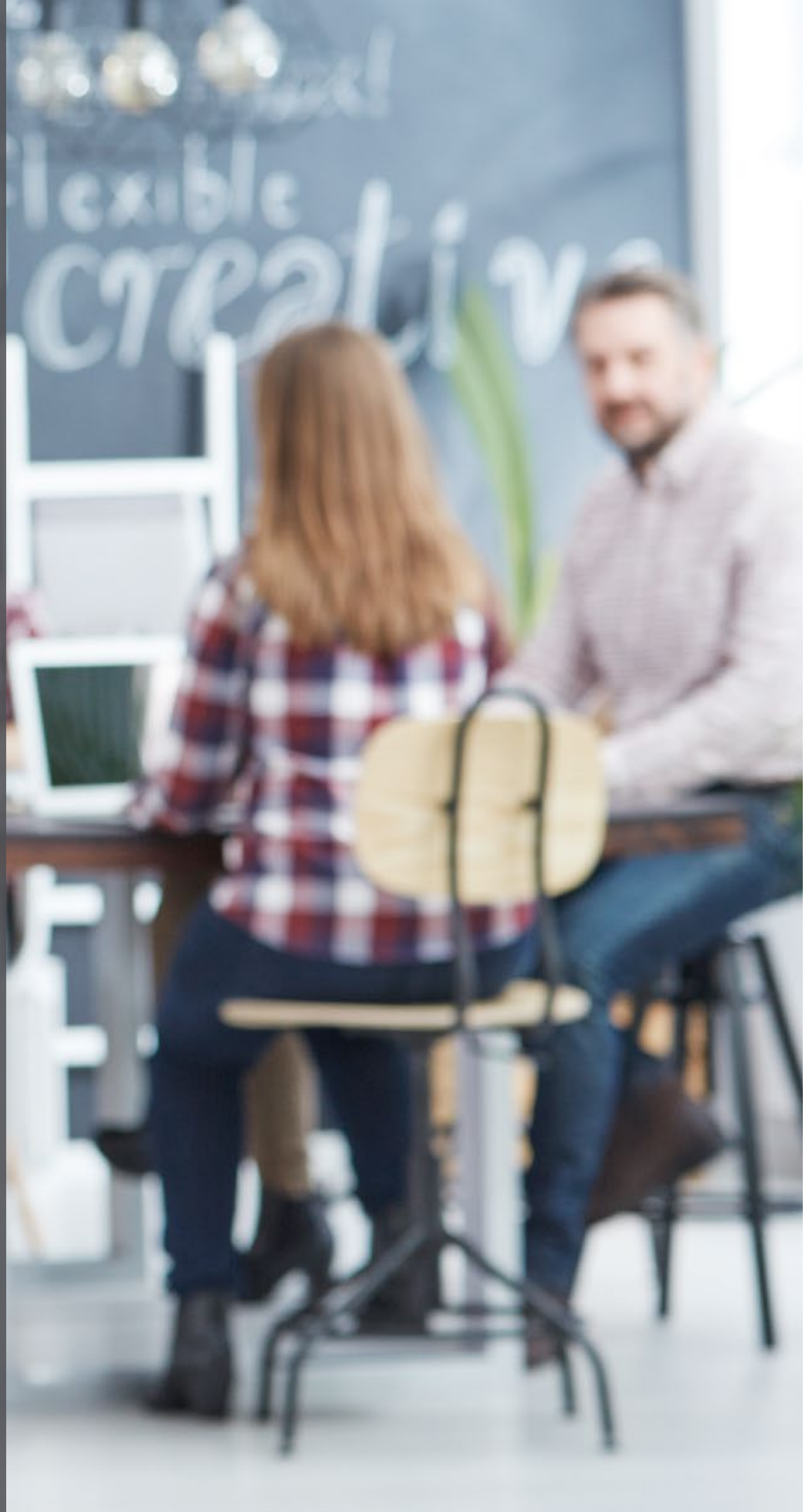
**The US market is the home of co-working – as part of the evolution of this fantastically dynamic sector we are now seeing different space dynamics and varieties of niche space cropping up all across this market. As the market becomes more crowded, operators are looking to more specialist occupier demand and catering for more specific interests both in terms of design but also amenity provision.**

**There are strong examples across the country of niche spaces that differ so much from the atypical corporate office space that dominated commercial real estate for so long. Operators, and now it would seem landlords, have recognized that it is tenants and their specific demands that must be placed at the heart of an increasingly competitive market.**

The US market is particularly adept to change given that the vast majority of operators run only one or two spaces – what this means in simple terms is that they really understand their occupiers and local markets, and are tailoring their offering accordingly. This is a sea change moment for the CRE sector that has always tried to offer up neutral space that can be co-opted by a corporate occupier; corporate space has always been positioned as inoffensive and easy to change up, rather than an expression of individualism or significant point of difference. The rise of the flex market offers a radical shift – much as has occurred in the design in hotel and retail spaces – with space becoming a key signifier and occupiers having the option to move on and choose a different environment or simply operate across a variety of radically different spaces.

The flex space sector is an extremely unforgiving business environment with aggressive pricing and large new corporate entrants looking to make an early impression. The past 12 months has seen firms join the market many of them operating just one center, but also those with significant financial backing; as the market continues to scale competition is heating up and for operators of all sizes, knowing their occupiers and understanding the future direction of travel is of paramount importance.





This will require a degree of agility that has, thus far, eluded the large but slow moving companies of the conventional real estate market but as the market changes, we will undoubtedly see them have to evolve and compete with the more nimble firms that occupy so much of the US flex space market.

**The days of one size fits all space are receding and future success in this new market for CRE is all about understanding tenant demand and being in a position to cater service provision accordingly**

Our view is that this new availability of market choice has only just started. Now that clients are becoming more familiar with choice, they are going to demand more options that suit their business. In many ways this is the consumerisation of what has always been a closely guarded and fiercely B2B market.

There is a growing awareness among companies of all sizes of the benefits of a flexible approach to workspace both in financial terms, but also from the point of view of workspace productivity and business development. Where the US market is leading, in terms of choice and new options for occupiers of office space, we are already seeing this change in other markets around the world. But there is much more growth to come in the US and a dynamic of entrepreneurs running flexible workspace that are leading the way.

# Rethinking Workspace.

**Founded in 1999, The Instant Group is a workspace innovation company that rethinks workspace on behalf of its clients injecting flexibility, reducing cost and driving enterprise performance. Instant places more than 7,000 companies a year in flexible workspace such as serviced, managed or co-working offices including Amazon, American Express, Sky, Network Rail, Serco, Teleperformance, Worldpay, and TMF making it the market leader in flexible workspace.**

Its listings' platform "www.instantoffices.com" hosts more than 12,000 flexible workspace centres across the world and is the only site of its kind to represent the global market, providing a service to FTSE 100, Fortune 500, and SME clients. With offices across the world, The Instant Group employs 200 experts and has clients in more than 150 countries.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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 December 2017.

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