

OFFICE OCCUPIER SPOTLIGHT

COWORKING & OFFICE TRENDS

Q1 2019



CUSHMAN &
WAKEFIELD

THALHIMER

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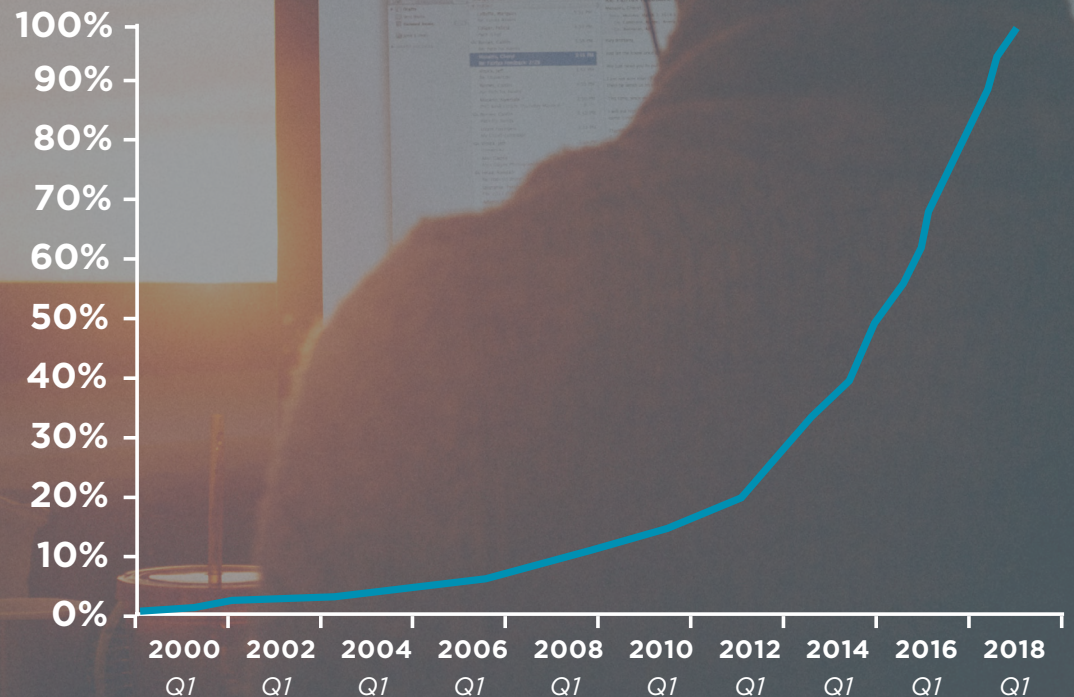
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THE RISE OF COWORKING

Coworking is influencing how occupiers, workers, and investors think about the workplace. The idea is not new, but it has gained momentum in recent years as commercial real estate adapts to the convenience and flexibility that companies expect. Cushman & Wakefield estimates there are over 200 coworking companies in the U.S. and there are nearly 20 companies with at least 10 locations. The industry has been dominated by a small number of large players whose growth has accelerated over the past three years. Half of all current U.S. coworking space has opened since 2015. The number of coworking members is anticipated to reach 5.1 Million in 2022, up from 1.7 million in 2017.

**50% OF CURRENT
U.S. COWORKING
SQUARE FOOTAGE
HAS OPENED
SINCE MID-2015**



SOURCE: COSTAR GROUP; CUSHMAN & WAKEFIELD RESEARCH

FACTORS CONTRIBUTING TO THE RISE OF COWORKING:



Workplace as an HR tool: competition for talent – the design, amenities and flexible options provided by coworking are beneficial to help attract talent



Job creation: 9 out of 10 jobs are created by small companies

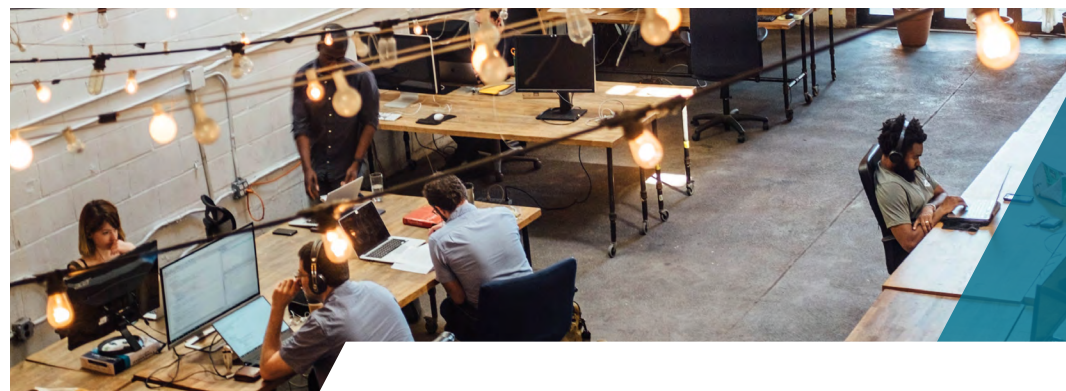


Rising construction costs: there is difficulty meeting Landlord and Tenant expectations on lease economics due to increased construction costs. Tenants expect Landlords to cover a majority of these expenses

Traditional coworking utilizes vacant office space. A provider leases the space traditionally from a landlord before building out space and subletting the space to tenants with flexible lease terms. Office Design – incorporating healthier workspaces, comfortable seating options, amenities, technology and branding – is paramount to create an attractive environment.

Landlords have responded by investing in their buildings to improve amenities and offering additional concessions to prospective tenants. Alternatives to coworking are also emerging. Workplace solution providers have started using management agreements as an alternative option to curate office space. These agreements allow the provider to operate the building and share revenue with the landlord instead of traditional lease payments.

Landlords and tenants are focused on creating experiential office space. Amenities such as workout facilities, yoga rooms, bars, restaurants, or retail can be incorporated to offer more than a place to work. Landlords have the opportunity to reposition underutilized space in order to attract and benefit tenants in order to better compete with coworking.



9 OUT OF 10

Jobs In The U.S. Are
Created By **Small
Companies**





RICHMOND COWORKING STATS

300,000+ SF COWORKING INVENTORY

**45% OF COWORKING INVENTORY HAS OPENED
IN THE PAST 24 MONTHS**

18 LOCATIONS

13 OPERATORS



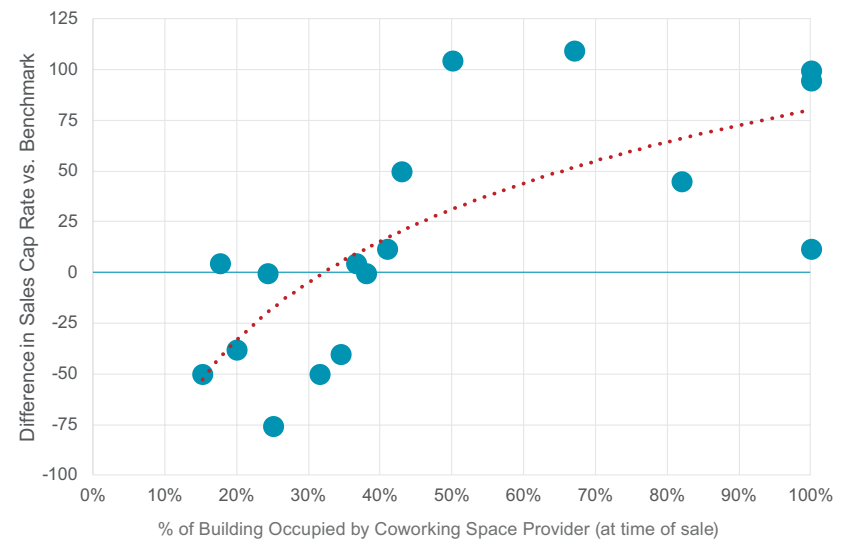


COWORKING & BUILDING VALUES

There is perceived risk with the amount of space allocated to coworking. One study of building sales from the past two years found that transactions with 40% or less of the building occupied by coworking, cap rates were equal or below to comparable sales in the area. The difference in cap rates increased when more space was occupied by coworking. A similar analysis showed 64% of buildings sold with more than 40% designated to flexible space produced cap rates less favorable than similar buildings.

Cap Rates Impacted By Coworking Occupancy

Sales Of Buildings With Coworking Space Occupancy (Q1 2016 - Q1 2018)



● Represents individual sale

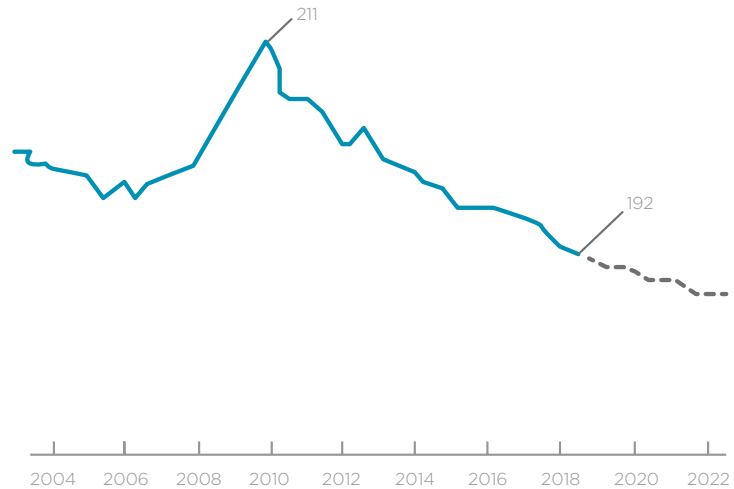
Source: Real Capital Analytics; Cushman & Wakefield Research



WORK HABITS IMPACTING REAL ESTATE

Companies are faced with an extremely tight labor market and the competition for talent continues to heat up. The office environment is increasingly used as a tool for recruiting. In 2018, attracting and retaining talent became the top driver of occupiers' commercial real estate decisions. Building amenities, location and design can make companies more attractive to prospective employees. How companies work is also changing what is needed in the workplace.

Average SF per employee has steadily declined since its peak in **2009**



INCREASED OFFICE DENSITY

The Emergence of Remote Work is reshaping how an occupier utilizes office space. As larger corporations evolve, remote work is reducing the amount of space required for employees. The average square footage per employees has steadily declined since its peak in 2009.

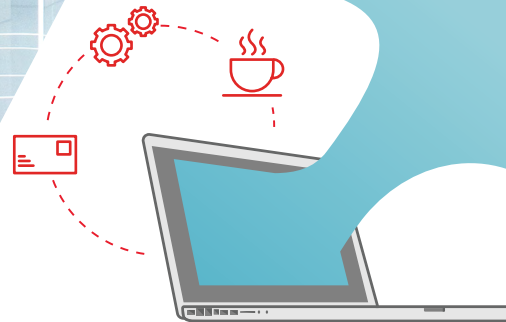
The number of self-employed and freelance workers has helped fuel the growth of coworking and remote work. While they have traditionally been the early adopters, large corporations are also incorporating flexible workplace options. Coworking providers offer additional space that is highly experiential, design-focused and flexible. A survey from Cushman & Wakefield found that 52% of occupiers now offer flexible workplace options, such as remote work, and 32% offer coworking options for employees.

SOURCE: CUSHMAN & WAKEFIELD RESEARCH, BUREAU OF LABOR STATISTICS

The number of coworking members is anticipated to reach **5.1 Million** in **2022**, up from **1.7 million** in **2017**

78%
of remote workers
primarily work
from home

12%
of remote workers
use coworking
space



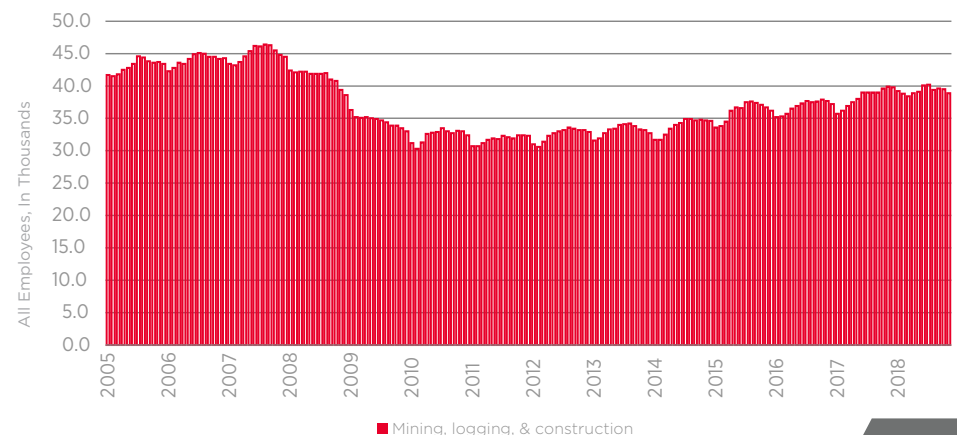
CONSTRUCTION LABOR SHORTAGE

Building office space has become increasingly more challenging in recent years due to rising construction costs. While many headlines have centered around material costs rising and uncertainty over the duration and extent of trade tariffs on materials, labor costs have had a major impact on overall building costs. The construction industry is faced with a shortage of workers and has yet to reach the level of employment witnessed prior to the Great Recession. In Richmond, employment in the construction sector has improved over the last five years but the total number of jobs remains nearly 13% below pre-recession peaks in 2007. Steady construction activity has placed more pressure on general contractors searching for specialty trade subcontractors to complete projects on time.

SOURCE: BUREAU OF LABOR STATISTICS



Richmond, VA Construction Employment



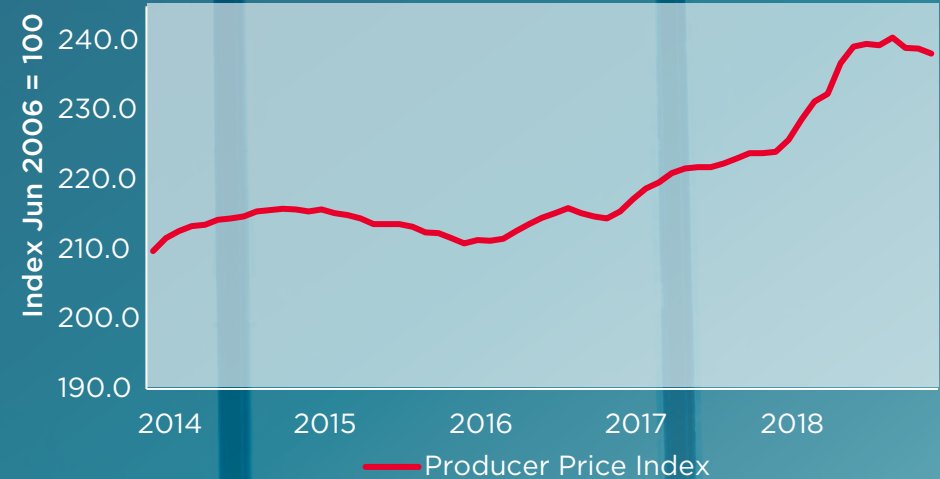
IMPACTS FROM CONSTRUCTION COSTS

The tight labor market, increasing material demand, and uncertainty around global trade tensions continue to fuel the rise in construction costs. Construction costs have posted steady increases over the past 5 years. In 2018, the national average increase in construction costs was 4.2%. In North America, the 308,000 construction jobs added over the past year reached a 10-year high and the industry's unemployment rate hit an all-time low. Contractors are burdened with much of the material and labor costs. Trade tariffs have increased the cost of certain construction materials and uncertainty remains with no resolution in place.

As rents increase to cover rising construction costs, tenants expect landlords to offset rising rents and construction costs with concessions. Tenant Improvement Allowances provided by landlords are rising faster than rents, and landlords may be faced with the cost burden of expensive build outs.

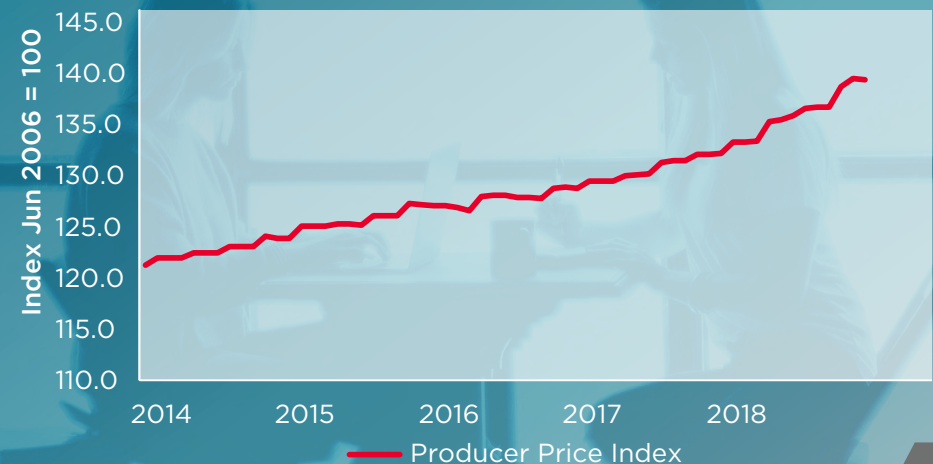
SOURCE: RIDER LEVITT BUCKNALL, BUREAU OF LABOR STATISTICS; BUREAU OF LABOR STATISTICS

Construction Materials

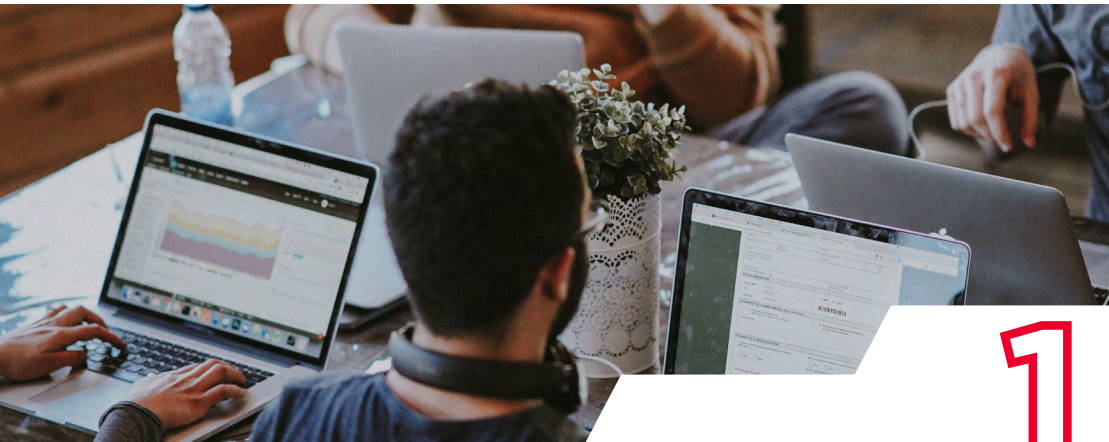


SOURCE: U.S. PPI INDEX

New Office Building Construction



SOURCE: U.S. PPI INDEX



1

OFFICE BUILD OUT TYPES

Progressive Office Style: features an open office floor plan, minimal private space, collaborative space and conference rooms, and high density of workers. Has been the fastest growing office style in recent years and typically costs less per SF to construct.



2

Moderate Office Style: includes a balance between open office and dedicated private offices, agile floor plans, mix of conference rooms. Medium density and costs, 20-25% more dense than traditional and 20-25% less dense than progressive. Build outs can cost 5-10% more than the progressive style.



3

Traditional Office Style: has the highest private office density. 20% of square footage dedicated to enclosed offices, includes conference rooms and minimal collaboration spaces. 20-50% less employee density than other office styles. Build outs typically cost 10-20% more than progressive style and 5-15% more than moderate office style.



KEY OFFICE MARKET STATISTICS:

MARKET	OFFICE VACANCY CLASS A	ASKING RENT CLASS A	SF UNDER CONSTRUCTION
Richmond	7.7%	\$21.68	1,268,249
Hampton Roads	8.1%	\$21.54	646,565
Fredericksburg	18.0%	\$24.88	0
Roanoke	7.5%	\$18.32	0
Greenville	10.6%	\$23.53	143,057
Charleston	11.7%	\$26.52	711,134



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