The CoWorking Revolution
Coworking Space at The Office Group in Farringdon
It is hard to ignore the Coworking revolution which has slowly been building momentum for the last few years. Coworking has moved from a niche market to a fully fledged alternative to the traditional office set up.

It is a concept centred on a core set of values: community, openness, collaboration and accessibility. The exact definition of Coworking can vary by interpretation, but it is widely accepted that it represents a fundamentally new way of thinking about how we work.

In the broadest terms, Coworking describes any situation where two or more people are working in the same place together, but not for the same company. This can happen in a variety of locations, whether a cafe, a hotel lobby or a designated Coworking Space.

Coworking Spaces are businesses dedicated to the values outlined above. Providers include The Office Group, WeWork and Neuehouse. They represent a foundation of infrastructure for a growing number of people who want to work where, when and how they want.

The rise of Coworking is a response to several trends that should support strong development in the future. They include technology enablement, the growth of the tech, online and creative industries, generational change and an increase in micro businesses and independent workers.

Coworking Spaces are primarily utilised by small businesses and independent workers, but the trends prompting the growth of Coworking are also prompting changes to the traditional working styles of larger, corporate organisations. This is manifested in the adoption of Activity Based Working.

This report sets out to track those trends, and the new world of work that has ensued. It takes stock of the benefits associated with Coworking and touches on the potential future benefits for landlords and corporate organisations.

“Coworking Spaces are primarily utilised by small businesses and independent workers, but the trends prompting the growth of Coworking are also prompting changes to the traditional working styles of larger, corporate organisations. This is manifested in the adoption of Activity Based Working.”

TOBY OGDEN,
HEAD OF CENTRAL LONDON TENANT REPRESENTATION, DTZ
MICRO BUSINESSES AND INDEPENDENT WORKERS

In June 2014 there were 4.2 million home workers in the UK, the highest level of home working since comparable records began. The number of home workers has grown by 1.3 million since 1998 and the home working rate increased from 11.1% in 1998, to 13.9% in March 2014 – higher than any point in the past decade and a half. The scale of remote working proves how easily it can be done.

Micro businesses are also increasing, representing 96% of companies in the UK and employing more than 7 million people. Increases in new businesses are partly explained by the expanding funding available for entrepreneurs, including the emergence of sources such as the Business Growth Fund, angel investment networks and crowd funding, as well as tax breaks for those investing in start ups.

If micro businesses grow year-on-year at the same rate as they did between 2012 and 2013 they will account for 1.1 million new UK enterprises by 2024. According to Oxford Economics, self employment will also increase; by 15% in the next ten years. This estimated rise of 15% in the next 10 years will mean 5 million people in the UK will be self-employed by 2024.

Although not all of the UK’s self-employed and micro businesses will require Coworking Space, these groups incorporate millions of people and the scale of their growth means many of them will contribute to future demand for more flexible working environments.

TECHNOLOGY ENABLEMENT

“Although not all of the UK’s self-employed and micro businesses will require Coworking Space, these groups incorporate millions of people and the scale of their growth means many of them will contribute to future demand for more flexible working environments.”

SOPHY MOFFAT,
CENTRAL LONDON RESEARCH, DTZ
The growth of Coworking (and Activity Based Working) has been enabled by new technologies that have greatly reduced barriers both internally and externally for many companies. The explosion of online networks has helped entrepreneurs to reach people overseas and carry out tasks cheaply and highly collaboratively; internal collaboration tools such as Yammer, Jive and Huddle have enabled companies to bring employees together across borders, and businesses are increasingly expressing the desire to transfer some or all of their services, data and software to the cloud in order to enable remote working.

It is clear that businesses do not need the same level of infrastructure as was required in the past. Not only has this led to a higher number of independent workers and micro businesses, the increasing integration of technology into every work place is enabling employees to harness services and devices in ways that support flexible working across businesses of all types and sizes. As the world becomes more mobile, a higher number of people will be able to work from the office, their home, the coffee shop and their clients’ offices.

The next stage of this is evidenced by Hudson Yards (a pioneering quantified community in New York City expected to complete in 2018) where the integration of technology is being taken to new levels. The developers plan to collect big data about inhabitants to create better and more efficient work (and living) spaces. The analytics this will drive will enable occupiers to understand how, why and where their employees work within their space. Jay Cross, president of Related Hudson Yards, comments “You not only want to have a smart phone today — you want to live in a smart building and a smart community”.

TECH FOR FLEXIBILITY

1. NO TOUCH INTERFACES
   Basic pattern recognition technology has been advancing for generations. From Microsoft’s Kinect to Apple’s Siri to Google’s Project Glass we are beginning to expect that computers adapt to us rather than the other way around.

2. THE WEB OF THINGS
   Everything we interact with becomes a computable entity. Our homes, offices, cars and even objects on the street will interact with our smart phones and with each other. Near Field Communication will allow for two-way data communication with nearby devices and ultra low power chips will harvest energy in the environment, which will put computable entities just about everywhere.

3. SUPERCOMPUTING
   Companies ranging from IBM to Google to Microsoft are racing to combine natural language processing with Big Data systems in the cloud that we can access from anywhere. These systems will know us better than our best friends, but will also be connected to the entire Web of Things as well as the collective sum of all human knowledge.
Coworking members at WeWork in Washington DC. WeWork recently opened a Coworking Space at Sea Containers House in London.
The story behind the growth

GENERATIONAL CHANGE

London’s workforce is young. One in three of the UK’s 20 to 30 year olds relocating between 2009 and 2012 moved to the capital. As younger generations move into the workforce it has become apparent that their expectations differ from those of older generations. PwC’s 2013 NextGen Study found that Millennials want more flexibility and the opportunity to shift hours, if they were able to make their current job more flexible 64% would occasionally work from home and 66% would shift their work hours. This is supported by research from the Intelligence Group: 74% of the Millennials they surveyed wanted flexible work schedules and 88% favoured the kind of collaborative culture offered by flexible working environments over competitive culture.

Gen Y are digital natives: the third annual Cisco Connected World Technology Report surveyed 1,800 college students and workers aged 18 to 30 across 18 countries, and noted “Ninety percent of

Gen Y surveyed worldwide said they check their smart phones for updates in email, texts and social media sites, often before they get out of bed [...] there are 206 bones in the human body, and the smart phone could plausibly be considered the 207th for Gen Y”.

Mobile devices are just the beginning. As more people, processes, data and things join and interact on the Web of Things, the volume and potential value of the data generated by those connections will grow exponentially. The attitude of Gen Y towards work (they prefer flexibility), and the role technology plays in their work and everyday lives has resulted in a desire to be able to work anywhere and anytime. Their preferences can be well served by Coworking and Activity Based Working.

“Although not all of the UK’s self-employed and micro businesses will require Coworking Space, these groups incorporate millions of people and the scale of their growth means many of them will contribute to future demand for more flexible working environments.”

SOPHY MOFFAT, CENTRAL LONDON RESEARCH, DTZ
A workspace problem for small businesses is the seed for the growth of Coworking

For both independent workers and micro businesses, conventional offices have shortcomings. These are partly practical and partly aesthetic.

Practically, it is difficult for micro businesses and independent workers to plan ahead to the same extent as more established businesses. Independent workers and micro businesses are therefore unwilling to commit to traditional lease terms (i.e. a five, ten or even fifteen year lease with a break at the half way point). But finding traditional landlords willing to offer flexibility can be challenging, particularly for new businesses where a lack of covenant strength may be an issue.

Many independent workers and young businesses are unable to provide landlords with years of company accounts and guarantees, providing another obstacle to those that want to take conventional offices. Georg Ell, former European General Manager of Yammer (an Enterprise Social Network designed to connect workers to share information and foster collaboration within businesses) comments of their search “The guarantees landlords asked from us were sometimes ridiculous — in one case, as long as 24 months. And they wanted three years’ UK trading accounts which is impossible because the entire business had only been going two and a half years, and all of that was in San Francisco”.

Flexible working styles mean the boundary between work and home is increasingly blurred. Many Coworking Spaces have tapped into this by creating environments that resemble trendy coffee shops more than corporate HQs. This has a significant impact on design. Central Working (a Coworking provider with units across Central London) provides boutique style working space with

“The guarantees landlords asked from us were sometimes ridiculous - in one case, as long as 24 months. And they wanted three years’ UK trading accounts which is impossible because the entire business had only been going two and a half years, and all of that was in San Francisco.”

GEORG ELL,  
FORMER EUROPEAN GENERAL MANAGER OF YAMMER
interiors featuring designer furniture and modern art, The Office Group’s Coworking Space in Shoreditch features antiques sourced by creative practice Acrylicize, and Neuehouse’s space in New York was decorated by David Rockwell, an architect known for his work on set design.

Many independent workers and micro businesses favour collaboration and view it as a major driver for growth. Indeed, this is a key component of the success of London’s ‘Silicon Roundabout’ where many small businesses have thrived, and technology companies have risen from 15 to 5,000 in just five years. Charlie Green, CEO of the Office Group comments “Between 10 and 20 per cent of space at our offices is communal, but demand is increasing”, and some creative, tech and new media organisations demand at least 50% of their floor space be dedicated to areas where employees can socialise and work collaboratively.

Ultimately, rather than thinking of the office as a place primarily for solitary activity, from which workers occasionally break out to settings intended for social activity, many independent workers and micro businesses see the office as a sociable setting from which private places for concentration and confidentiality are occasionally sought.

Rather than thinking of the office as a place primarily for solitary activity, from which workers occasionally break out to settings intended for social activity, many workers see the office as a sociable setting from which private places for concentration and confidentiality are occasionally sought.

— Richard Howard, Head of Central London Agency, DTZ
An upshot of these changing aesthetics and practicalities is the rise of Coworking providers. When independent workers and micro businesses decide to occupy Coworking Space, they make no long term commitment. This alleviates the need for the forward planning that prevents them from leasing conventional offices. This is because Coworking Space is taken on a membership basis, which can cost as little as £230 per person per month at providers including MetrolAB near King’s Cross, and as much as £699 per person per month at Co Work in the City of London.

Coworking Spaces are not in the market for the same reason as incubators and accelerators. The latter two are small start up hubs used by venture capitalists and large companies who might take an equity stake in the young businesses they accommodate, and focus on a high churn of occupiers.

In contrast, Coworking Spaces are targeted not solely at start ups but at an entire class of professionals. Charlie Green, CEO of The Office Group comments “We do not have a niche in terms of sector or age, Generation Y is important, but we do not bracket generations because it is limiting. We all work in similar ways.”

Along with the ease and flexibility of membership, some organisations and individuals renting space from Coworking providers are able to benefit from cost savings. For conventional offices in London, such as those traditionally occupied by global corporations, occupancy costs per workstation are £776 per month in the City and £1,354 per month in the West End. This makes some of the most expensive Central London Coworking providers look relatively cheap.

There is also a narrower pricing gap between submarkets than at conventional offices. For a typical corporate office, occupancy costs per workstation per month are almost £600 more in London’s West End than in the City. The difference in cost between Coworking Spaces in those markets is just £63 per member per month. In effect, this gives Coworkers more scope than many other Central London businesses when they are deciding where to locate.

Analysis of Coworking members across Central London shows that 51% are in the tech and digital sector, 21% are in the
communications and media sector, and 10% are in the creative sector. This means the majority of demand for Coworking is currently coming from the type of businesses that prefer to be in non-core areas.

Half of businesses from the tech, creative and new media sector leasing Central London offices in 2014 have taken space in submarkets outside the City of London and the West End. Accordingly, many Coworking Spaces are currently located in fringe areas with 15% in Westminster or the City of London.

“...For a typical corporate office, occupancy costs per workstation per month are £600 more in the London’s West End than in the City. The difference in cost between Coworking spaces in those markets is just £63 per member per month. This arguably gives Coworkers more scope than many Central London businesses when they are deciding where to locate.”

SOPHY MOFFAT, CENTRAL LONDON RESEARCH, DTZ
“Coworking is an incredible marker for future office spots. Much more than traditional offices Coworking Spaces are highly sensitive to their micro location, usually matching places fashionable with a young workforce. A place that works today with Coworking will be a great location for more traditional offices in a couple of years.”

TAMÁS POLSTER, HEAD OF CONSULTING EUROPE, MIDDLE EAST & AFRICA, DTZ

INCUBATORS, ACCELERATORS AND COWORKING

INCUBATORS
Incubators provide start ups with both work space and business development services in a rent based model offered to young ventures in a custom package. Capital is invested in young companies in exchange for a small equity stake. Incubators charge low to no upfront costs for utilising workspace, as well as resources (which include mentors and networks of investors).

ACCELERATORS
Accelerators are like schools for start ups. When a start up is accepted into an accelerator programme (lasting between three and four months) they get access to space, mentorship, networking opportunities and small amounts of seed capital. For many accelerators, making money is not the goal – big companies often launch them to tap into the start up community or as a marketing exercise, and governments fund them in order to foster entrepreneurship.

COWORKING SPACE
In contrast to incubators and accelerators, Coworking Space is more a style of work than a structured environment or educational programme. Coworking Spaces provide collaborative environments where companies can formulate ideas. With peer to peer mentorship and greater access to other entrepreneurs, micro businesses and independent workers gain an advantage. Coworking providers offer well designed open spaces with lots of natural light and floor plans that emphasise community. A mix of professions and cultures can be found at Coworking Spaces in cities around the world. Members of Neuehouse in New York, for instance, include music and hotel entrepreneur Chris Blackwell, fashion consultant Julie Gilhart and media maven Jefferson Hack.
The implications for landlords and corporates

Coworking providers have helped to bridge the gap between what many workers and small businesses want, and what conventional office landlords are able to offer.

As such, the trend for creatives and tech entrepreneurs to work from coffee shops on their laptops has evolved into a bankable business model. But the story is broader, and the result is a change to working environments across companies of all types and sizes.

Big businesses are beginning to realise the benefits of Coworking and Activity Based Working. With nearly 80% of employees already using their personal devices at work, the British Council for Offices states that organisations are becoming less concerned with providing dedicated desk space than being flexible to accommodate new technology.

It can be seen globally that young talent wants to work in vibrant city districts and busy hubs that combine offices, retail, arts and culture, and residential areas. Future Financial Workplace (a recent research report by DTZ that involved interviews with 100 leading real estate, facilities, technology, HR and workplace professionals) recognised that “As competition for skills increases, and large corporations start to compete directly with media and technology companies to attract young talent, they will start to invest significantly in their workplaces and workplace technology. They will offer better working environments and more flexibility, in the same way the technology industry has done in the past ten years”.

Companies including Bank of America Merrill Lynch, Macquarie Group and Deutsche Bank have already been proponents of Activity Based Workplace design. These companies and others recognise the evolving requirements of today’s workers and are providing radically progressive workspace to facilitate the flexible approach to work that is becoming the new norm.

Landlords and conventional serviced office providers also recognise the bankability of Coworking and Activity Based Working. In June 2014, British Land announced it was partnering with Regus to open Third Place business hubs at three retail properties across the UK.

New Coworking ventures can also be seen in Tokyo, where The Share offer accommodation to young professionals in single buildings containing apartments, shared office space, shops and social areas.

“\nAs such, the trend for creatives and tech entrepreneurs to work from coffee shops on their laptops has evolved into a bankable business model. But the story is broader, and the result is a change to working environments across companies of all types and sizes.

Big businesses are beginning to realise the benefits of Coworking and Activity Based Working. With nearly 80% of employees already using their personal devices at work, the British Council for Offices states that organisations are becoming less concerned with providing dedicated desk space than being flexible to accommodate new technology.

It can be seen globally that young talent wants to work in vibrant city districts and busy hubs that combine offices, retail, arts and culture, and residential areas. Future Financial Workplace (a recent research report by DTZ that involved interviews with 100 leading real estate, facilities, technology, HR and workplace professionals) recognised that “As competition for skills increases, and large corporations start to compete directly with media and technology companies to attract young talent, they will start to invest significantly in their workplaces and workplace technology. They will offer better working environments and more flexibility, in the same way the technology industry has done in the past ten years.”

Landlords and conventional serviced office providers also recognise the bankability of Coworking and Activity Based Working. In June 2014, British Land announced it was partnering with Regus to open Third Place business hubs at three retail properties across the UK.

New Coworking ventures can also be seen in Tokyo, where The Share offer accommodation to young professionals in single buildings containing apartments, shared office space, shops and social areas.

“\nAs competition for skills increases, and large corporations start to compete directly with media and technology companies to attract young talent, they will start to invest significantly in their workplaces and workplace technology. They will offer better working environments and more flexibility in the same way the technology industry has done in the past ten years.”

FUTURE FINANCIAL WORKPLACE, A REPORT BY DTZ
CORPORATES AND FLEXIBLE WORKING

BANK OF AMERICA MERRILL LYNCH

The organisation believed that by adopting smarter and more agile methods of work they would greater satisfy and motivate their own staff which would aid retention and attraction, but also offer productivity gains and reduced spatial requirements. Investment in technology was a key part of this, particularly communications technology: teleconferencing facilities and mobile-working enablement, the introduction of the BlackBerry smartphone with remote access, and the set-up of video phones to enable colleagues to collaborate in ‘face-to-face’ style interaction. Flexible desk space was introduced to help transform the working environment.

According to Sheana Barrett, Co-head of Employee Relation and HR at Bank of America Merrill Lynch, “smart working is broader than flexible working, it is an approach to how we organise our work in order to provide staff with a greater level of connectivity”.

MACQUARIE’S BANKING AND FINANCIAL SERVICES GROUP (BFS)

The business moved 3,000 people into a new Activity Based Working environment in Shelley Street, Sydney. After implementation, they recorded several benefits: nearly 55% of employees now change their workspaces each day, 77% are in favour of the freedom to do so, and there has been 90% employee satisfaction since the move. The greatest business benefit Macquarie Bank have realised from Activity Based Working is the elimination of ‘churn’ — the cost of moving groups and redefining spaces — with nothing spent on churn in the company’s two-year occupation.

DEUTSCHE BANK

In 2002 the organisation started to introduce ‘db Smart Office’ – a new way of working within the organisation that provided a wide range of work settings to support the full range of working tasks, from collaborative team space to heads down working areas. The aim of the new way of working was to help promote multi-functional use of office space, encouraging communication, flexibility and privacy. Deutsche Bank have measured a number of benefits, both qualitatively and quantitatively. These include reduced occupancy costs due to reduction in spatial requirements projected to be between 10-30%, recouping of associated project costs within only 24 months due to savings made as a result of db Smart Office, improved employee productivity at work, improved technology in the workplace, and ability to increase employee populations without additional real estate expenses.

In the US, Vornado Realty is thinking even more broadly: the REIT is partnering with Coworking provider WeWork to redevelop an office building in Washington into residential apartments designed for mobile and collaborative workers. Not only will this enable professionals with in-demand skills to live in the centre of town, nearby businesses will have the ability to utilise workers living on their doorstep. It is therefore becoming increasingly apparent that Coworking and Activity Based Working models are able to provide holistic solutions that apply to both the residential and office markets.

Partnerships with Coworking providers can be valuable in less tangible ways too. In London, The Office Group recently acquired 20,000 sq ft of office space at One Pancras Square in King’s Cross. Nick Searl of Argent (the Development and Asset Manager at King’s Cross) comments “The Office Group provides high quality workspaces with a clear emphasis on design, and so is a perfect match for King’s Cross. [This] underlines the area’s credentials as a business destination and will help to make King’s Cross even more accessible to a broad range of firms”.

Place making is aided by small, new businesses that contribute to the buzz of areas like King’s Cross. But it is only when landlords lease offices to Coworking providers that they become associated with exciting new entrepreneurs, without exposure to the limited credit histories and unsubstantiated covenants involved in dealing with them directly.

“ It is becoming increasingly apparent that Coworking and Activity Based Working models are able to provide holistic solutions that apply to both the residential and office markets.”

RICHARD HOWARD, HEAD OF CENTRAL LONDON AGENCY, DTZ
When landlords lease offices to Coworking providers they can become associated with exciting new entrepreneurs, without the risk of direct exposure to their limited credit history and often unsubstantiated covenants.

Lettings to companies who operate as Coworking businesses are usually well regarded as the properties are normally always maintained to a good standard. More often than not the Coworking provider will take a long lease (in excess of 15 years), due to the set up cost and the longevity of their membership based business plan.

For valuation purposes, getting comfortable with the provider’s covenant is key. If the company has, or is, successfully running similar operations out of other premises then this will provide additional comfort that the occupier can make a success of the business.

Other considerations include the location of the premises and the current state of the leasing market. As rents and business rates rise, there is a greater likelihood that Coworking providers will benefit as the relative cost will seem attractive, especially to small or start up companies and independent workers.

ADAM PATTERSON, DIRECTOR OF VALUATION ADVISORY, DTZ
Conclusions

The Coworking industry has grown significantly in the past few years. This growth is a response to several trends and the continuation of these trends should, for several reasons, support the strong development of both Coworking and Activity Based Working in the future.

Self employment and micro businesses are growing. These groups incorporate millions of people and the scale of their growth means many of them will contribute to future demand for more flexible working environments.

The continued integration of technology into every work place will enable workers to harness services and devices in ways that support increased flexible working across all sectors. More and more workers will be able to work from the office, their home, the coffee shop and their clients’ offices.

As younger generations move into the workforce it has become apparent that their expectations differ from those of older generations. Studies have found that as many as 74% of Millennials want flexible work schedules, and as many as 88% favour the kind of collaborative culture offered by flexible working environments.

Ultimately, workers of different types and industries will come to see the office as a sociable setting from which private places for concentration and confidentiality are only occasionally sought. Traditional working environments simply do not match these perceptions.

As part of the solution, big business is beginning to incorporate Coworking and Activity Based Working principles. Bank of America Merrill Lynch, Macquarie Group and Deutsche Bank have already been proponents of this. These companies and others are increasingly providing radically progressive workspace to facilitate the flexible approach to work that is becoming the new norm.

Landlords and conventional serviced office providers are also beginning to recognise the bankability of Coworking and Activity Based Working. Third Place business hubs are opening across the UK, and new ventures across the world indicate that the model is being extended to provide solutions to both working and living arrangements.

According to the government’s 2013 Business Population estimates, micro businesses employ 7.8 million people across the UK and, according to the Office for National Statistics, there are 4.2 million home workers in the UK.

If just 1% of home workers signed up for Coworking membership, a minimum of 2.1 million sq ft would be required to satisfy demand. If just 1% of micro businesses took out Coworking membership for their employees, a minimum 3.9 million sq ft would be required to satisfy demand.

As such, the Coworking industry has the potential to grow significantly. The ways in which Coworking providers and landlords react to increases in demand will determine their place in tomorrow’s market.
Contacts

TOBY OGDEN
Head of Central London Tenant Representation
+44 (0)20 3296 4417
toby.ogden@dtz.com

SOPHY MOFFAT
Central London Research
+44 (0)20 3296 2156
sophy.moffat@dtz.com

CRAIG NORTON
Head of West End Agency
+44 (0)20 3296 4620
craig.norton@dtz.com

WEST END AGENCY

CITY AGENCY

ALISTAIR BROWN
Head of City Agency
+44 (0)20 3296 2007
alistair.brown@dtz.com

JAMES OLIVER
Senior Director
+44 (0)20 3296 2004
james.oliver@dtz.com

JONATHAN HUCKSTEP
Senior Director
+44 (0)20 3296 2006
jonathan.huckstep@dtz.com

TOM WILDASH
Director
+44 (0)20 3296 4619
tom.wildash@dtz.com

NAOMI CHARLTON
Director
+44 (0)20 3296 4623
naomi.charlton@dtz.com

NAOMI CHARLTON
Director
+44 (0)20 3296 4623
naomi.charlton@dtz.com
Definitions

**Coworking** describes any situation where two or more people are working in the same place together, but not for the same company.

**Activity Based Working** to design your office in such a way that it supports work activities optimally, rather than drawing a boundary around its user’s personal spaces.

**Generation Y** the demographic cohort following Generation X, there are no precise dates when the generation starts and ends. Researchers and commentators use birth years ranging from the early 1980s to the early 2000s.

Micro business a business with no more than nine employees.

**Third Place** (or third space) the social surroundings separate from the two usual social environments of home and the workplace.
DTZ is a global leader in commercial real estate services providing occupiers, tenants and investors around the world with a full spectrum of property solutions. Our core capabilities include agency leasing, tenant representation, corporate and global occupier services, property management, facilities management, facilities services, capital markets, investment and asset management, valuation, building consultancy, research, consulting, and project and development management. DTZ manages 3.3 billion square feet and $63 billion in transaction volume globally on behalf of institutional, corporate, government and private clients. Our more than 28,000 employees operate across more than 260 offices in more than 50 countries and proudly represent DTZ’s culture of excellence, client advocacy, integrity and collaboration.

For further information, visit:
www.dtz.com/uk

@DTZUK

©DTZ D045 09/14