

THE FUTURE OF COWORKING AND FLEXIBLE OFFICE SPACE: FIVE POTENTIAL PATHS

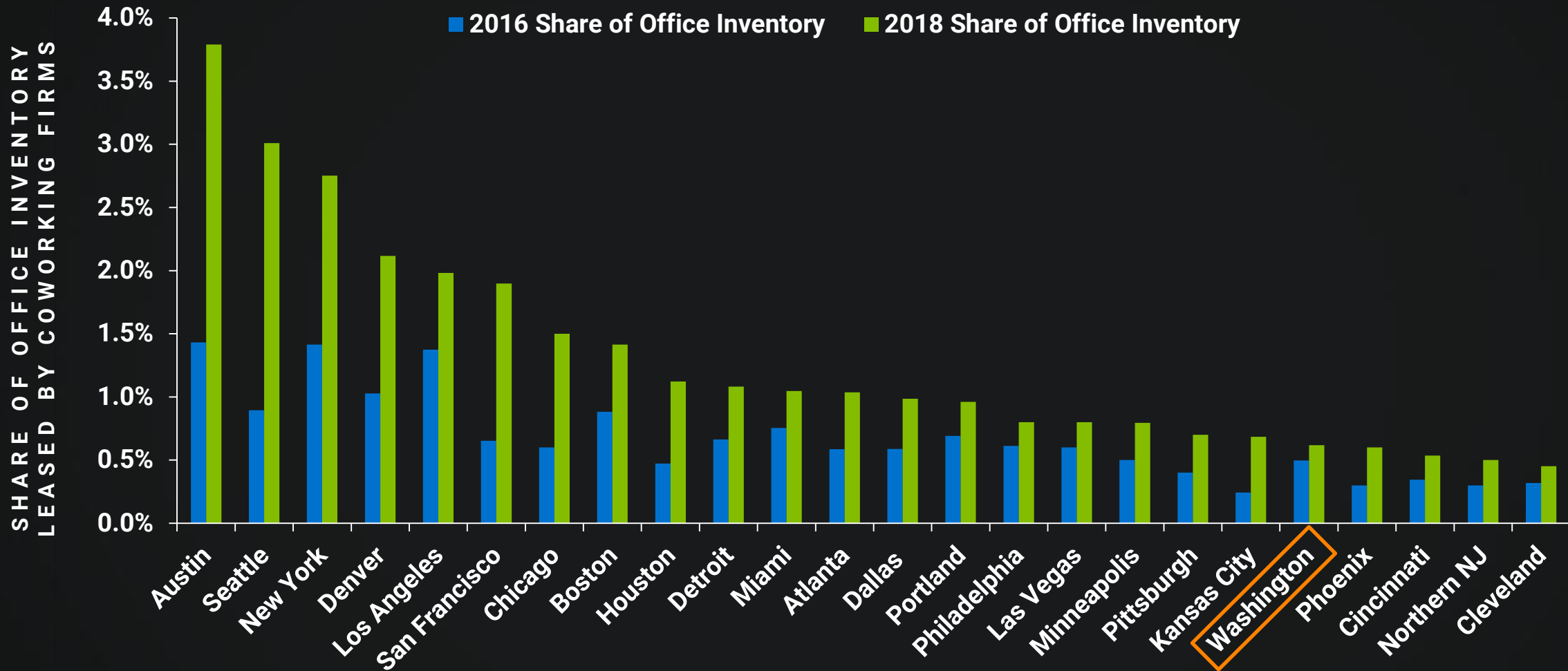
JANUARY 23, 2019

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PREPARED FOR: NAIOP

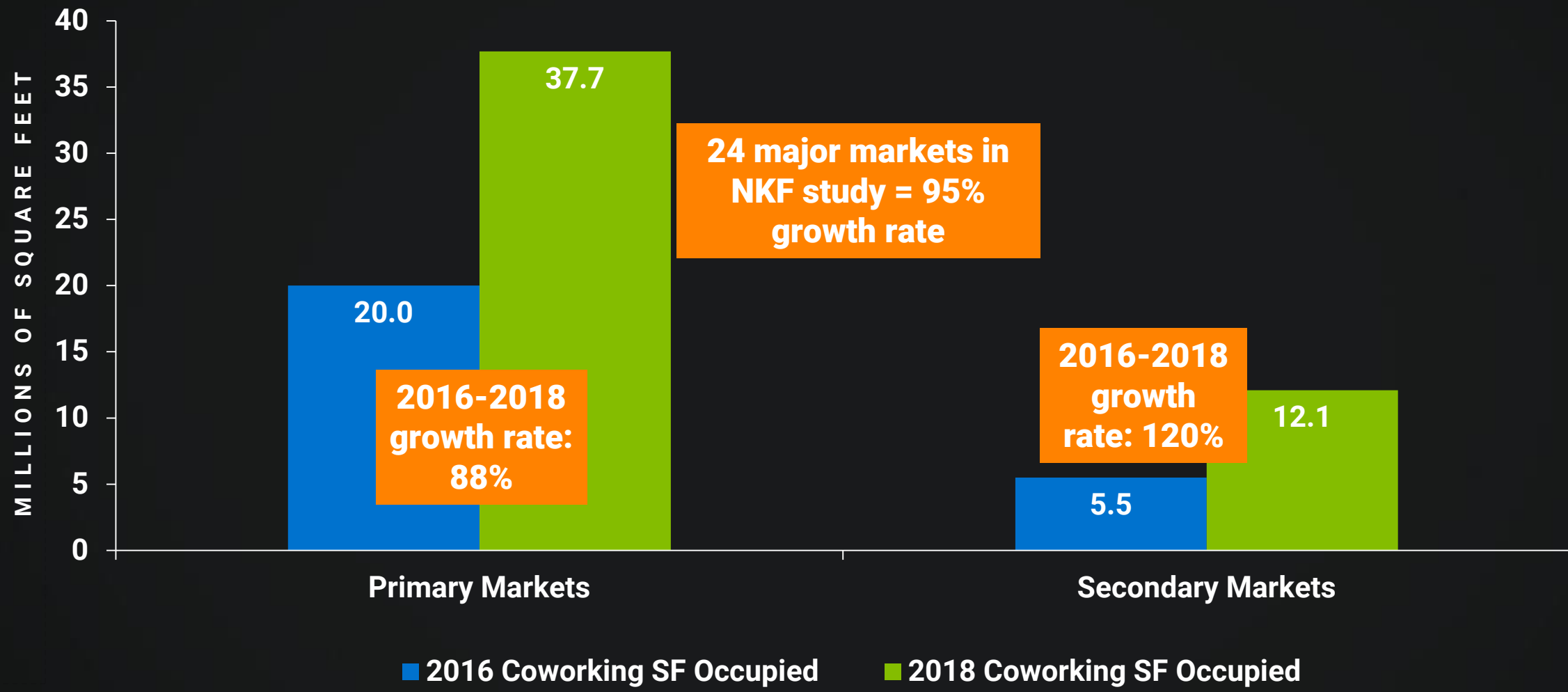
RAPID GROWTH OF COWORKING IN LARGE METRO AREAS

SHARE OF OFFICE INVENTORY LEASED BY COWORKING FIRMS: 2016 VS. 2018



RAPID GROWTH OF COWORKING IN LARGE METRO AREAS

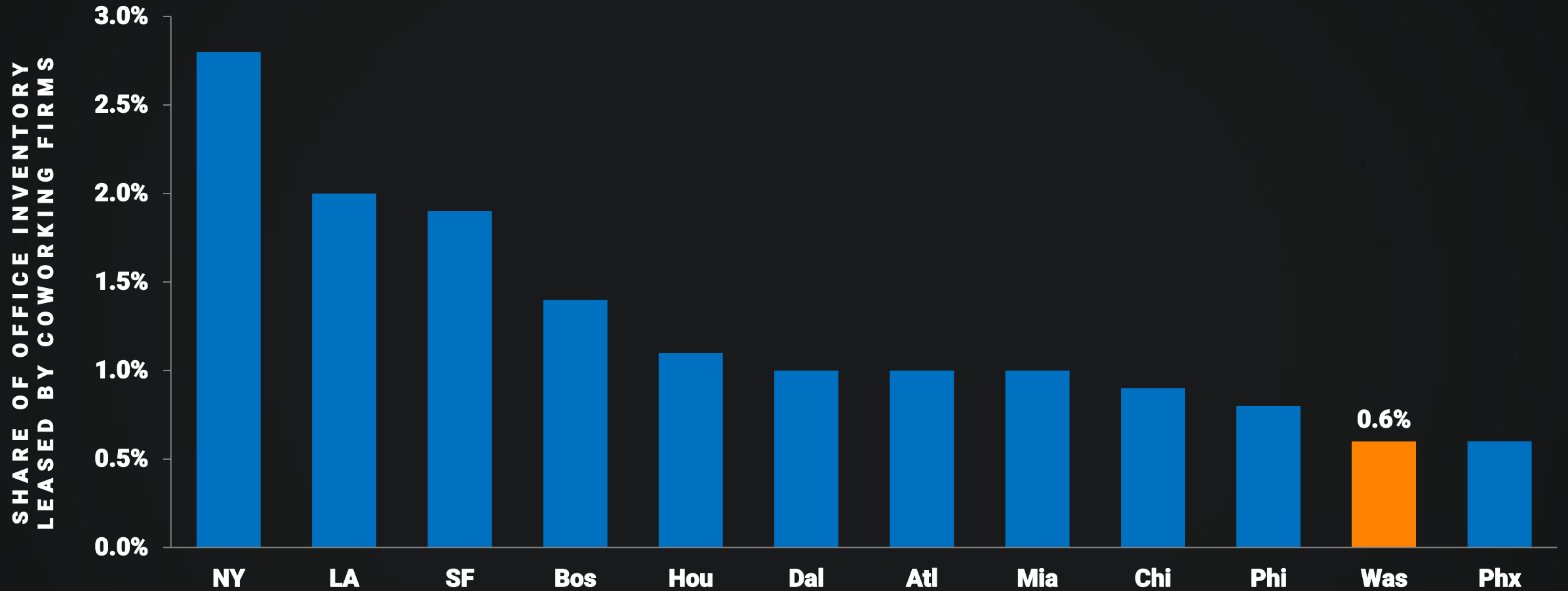
OFFICE INVENTORY LEASED BY COWORKING FIRMS: 2016 VS. 2018



Source: NKF Research; January 2019

WASHINGTON'S ADOPTION OF COWORKING LAGS OTHER PRIMARY MARKETS

SHARE OF OFFICE INVENTORY LEASED BY COWORKING FIRMS: 2018



WHY DOES WASHINGTON LAG IN COWORKING GROWTH?

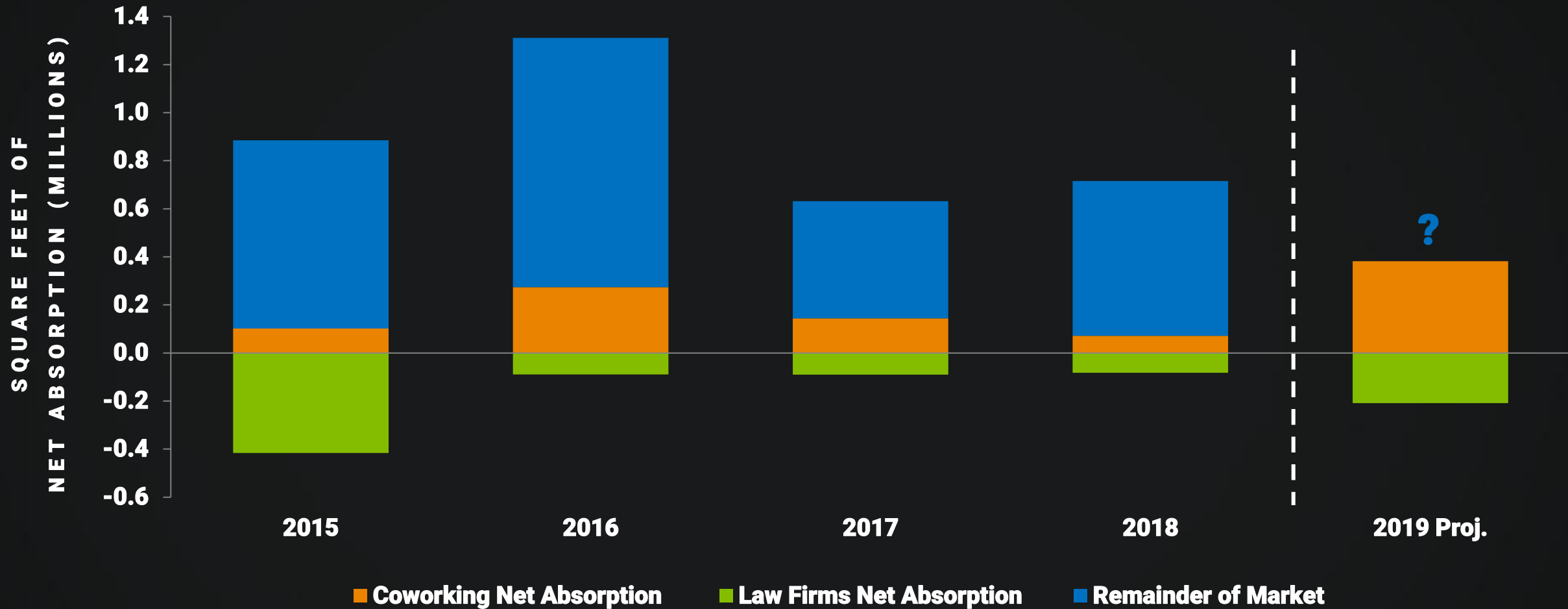


The District's two largest tenant types have not yet fully embraced the trend

COWORKING BOLSTERING DEMAND IN THE DISTRICT AS LAW FIRMS PULL BACK

DISTRICT OF COLUMBIA OFFICE NET ABSORPTION BY SECTOR

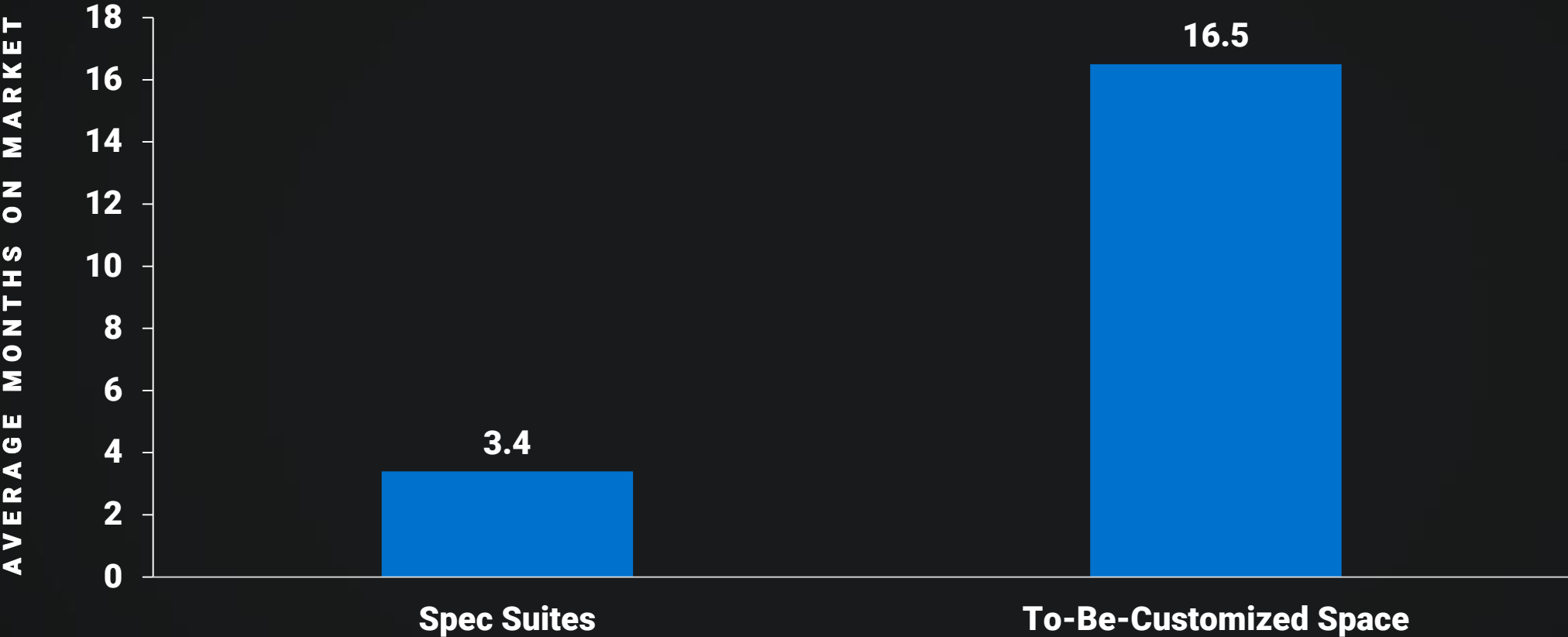
2015 - 2019



SPEC SUITES HELP ILLUSTRATE THE POPULARITY OF COWORKING

TIME ON MARKET COMPARISON: SPEC SUITES VS. TO-BE-CUSTOMIZED SPACE

DISTRICT OF COLUMBIA OFFICE SPACES 7,500 SF AND SMALLER | 2015 - 2018

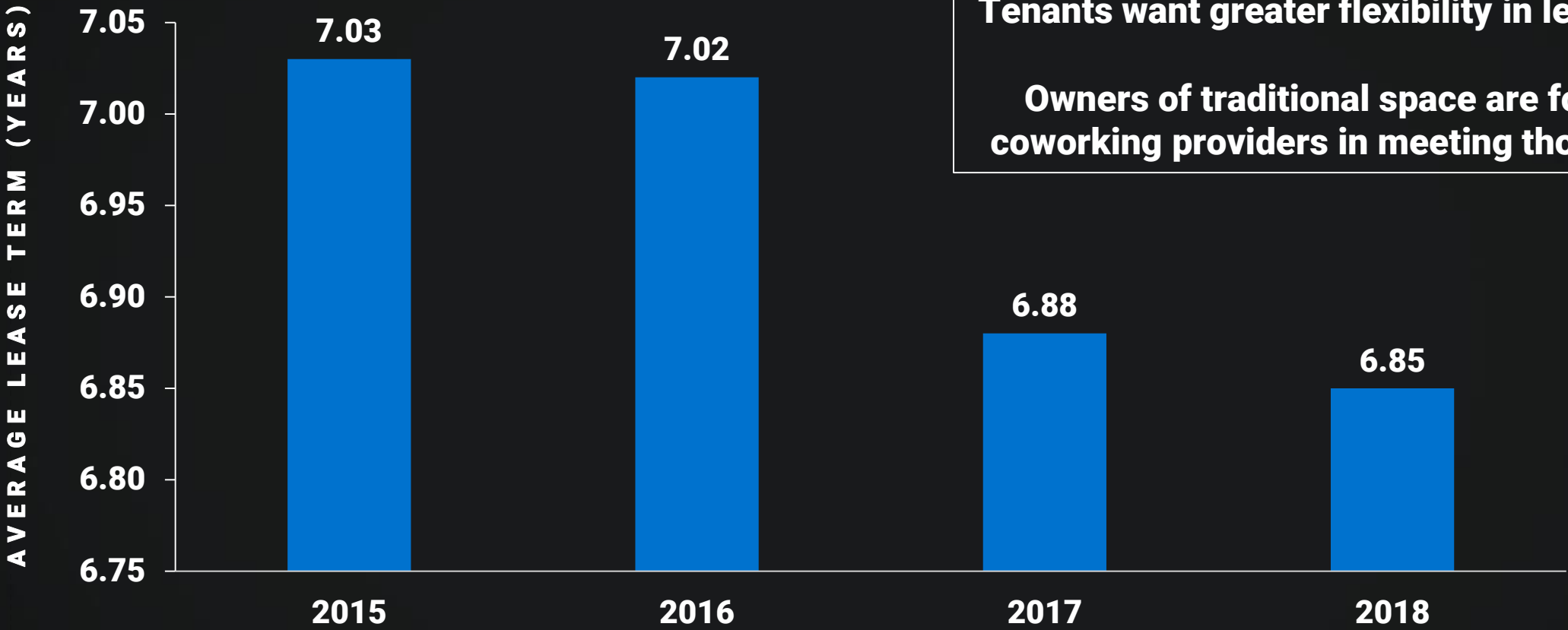


Source: CoStar, NKF Research; January 2019

LEASE TERMS GETTING SHORTER

AVERAGE LEASE TERM

WASHINGTON METRO AREA | 2015 - 2018



Tenants want greater flexibility in lease terms.

Owners of traditional space are following coworking providers in meeting those needs.

Source: NKF Research; January 2019



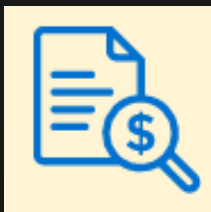
- **Management agreements**



- **New formats and leasing unconventional space**



- **Brokerage firms entering the market**



- **Asset owners acquiring existing coworking companies**



- **Asset owners offering their own coworking spaces or concepts**

Major Coworking Operators

MAKE | OFFICES®

cove

CARR
WORKPLACES

wework

Regus

SPACES.

METRO OFFICES

Major Owners with Coworking Operators as Tenants

LERNER

JBG SMITH

Douglas
Development
CORPORATION

bxp
Boston
Properties

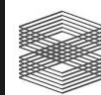
THE
MERIDIAN
GROUP

CARR
PROPERTIES

WASHINGTON★REIT **Space+** coworking/spec suite concept

RUBENSTEIN
PARTNERS

Management agreement with Industrious



TISHMAN SPEYER

Zo amenities and services suite

MRP
REALTY

"Town Hall" concept and investment in **MakeOffices**

THE FUTURE OF COWORKING AND FLEXIBLE OFFICE SPACE

FIVE SCENARIOS FOR THE NEXT FIVE YEARS



COWORKING CONTINUES AT OR NEAR ITS CURRENT PACE OF GROWTH BUT WITH CONSOLIDATION WITHIN THE INDUSTRY.

2

COWORKING GROWTH ACCELERATES RAPIDLY, REACHING 20% OF INVENTORY BY 2023.

3

COWORKING'S RATE OF GROWTH SLOWS CONSIDERABLY TO 5% PER YEAR. LARGE PLAYERS REMAIN A FORCE BUT FIND THE MARKET IS SATURATED AND END AMBITIOUS GROWTH PLANS.

4

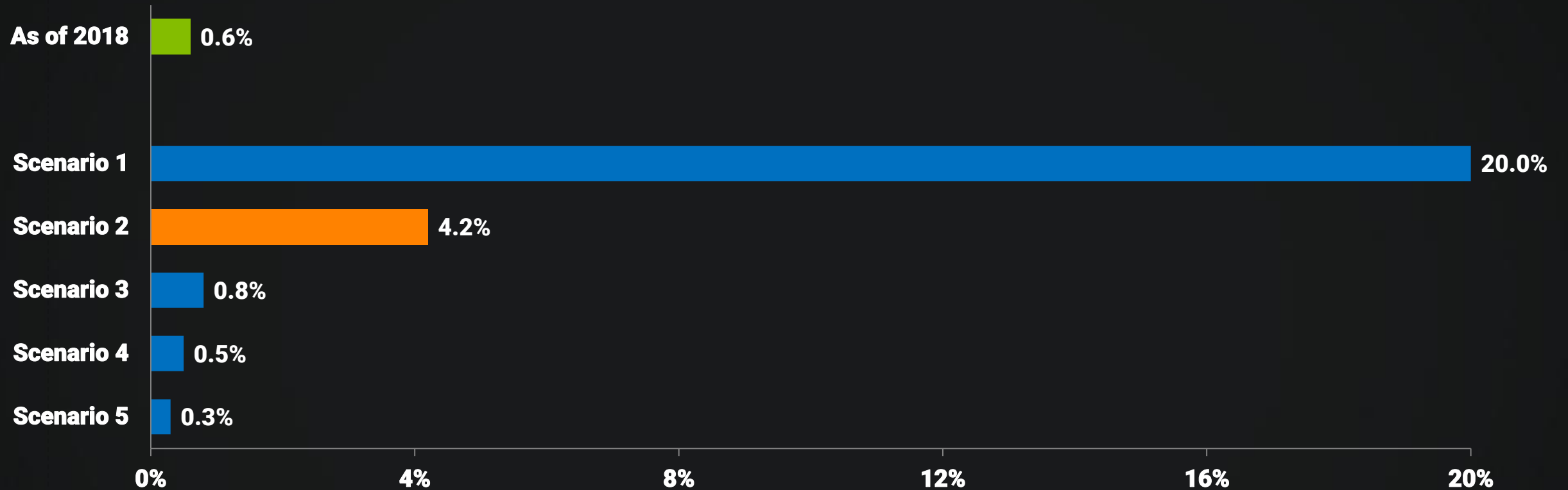
COWORKING IS CHALLENGED DURING THE NEXT ECONOMIC DOWNTURN AND UNDERGOES SIGNIFICANT CONSOLIDATION. CURRENT COWORKING OCCUPANCY IS REDUCED BY 10%.

5

COWORKING IS COMPLETELY DISRUPTED DURING THE NEXT ECONOMIC DOWNTURN. CURRENT COWORKING OCCUPANCY IS REDUCED BY HALF.

COWORKING IN WASHINGTON

HOW DO THE FIVE SCENARIOS PLAY OUT IN WASHINGTON?



PERCENT OF OFFICE INVENTORY OCCUPIED BY COWORKING BY 2023

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