CHALLENGES OF HAVING COWORKING SPACES IN OFFICE PORTFOLIOS: THE LANDLORD PERSPECTIVE

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ABSTRACT

The coworking sector has experienced a significant growth in the recent years as an alternative flexible space solution. The sector has evolved beyond just offering spaces to start-up companies, with large corporate tenants now representing a considerable proportion of its membership base. As a result, many landlords are increasingly incorporating coworking spaces into their office portfolios to meet the growing demand for such flexible, scalable, collaborative spaces with short term leases.

By conducting case study analyses and in-depth interviews with two large property trusts in Australia, this research paper examines the main issues and challenges faced by landlords when including coworking spaces in their office buildings. The findings identified key issues of consideration, which included business, financial, tenant mix, building specific, lease and valuation specific issues and challenges associated with coworking spaces as part of the traditional tenant mix in office buildings. While there are tangible and intangible benefits of including coworking spaces in office portfolios, this research emphasises the importance of understanding and overcoming potential business challenges associated with such spaces to ensure an optimum growth in investment grade assets.

Keywords: Office property, Flexible offices, Coworking spaces, Office landlords, Issues and challenges

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INTRODUCTION

Coworking originated in San Francisco in 2005, and has become a global phenomenon. Australia is one of the earlier adopters of the coworking culture outside of the US, with coworking spaces opening in the country as early as 2006 (Knight Frank, 2016). Coworking provides independent spaces within shared office spaces to members from diverse organisations and individuals. There are varying approaches for the use of coworking space. For instance, members can work alone or interact with like-minded people on a pay-as-you-go basis (Bouncken and Reuschl, 2016). The space is also suitable for start-up businesses, freelancers and entrepreneurs who like to work in environments which facilitate creativity, critical thinking, knowledge sharing, communication and collaboration (Spinuzzi, 2013; Parrino, 2013). Advancements in information and collaboration technologies and globalisation of business have created a need for flexible office environments in which people have more options for how, when and where to work (Kojo and Nenonen, 2016).

Initially, traditional landlords were leasing their spaces to coworking operators, who in turn subleased to start-up companies and individuals from a variety of industries. However, many office landlords were challenged by the coworking practice, as the traditional office space requirements and leasing principles were changing. Office landlords were the slowest adopters to the growing coworking practice (Green, 2014). Similarly, with the preference to lease spaces to large-scale corporations and professional service firms, landlords were cautious in welcoming coworking operators into their buildings (Green, 2014). However, it was also recognised that coworking spaces had the potential to create several tangible and intangible benefits to office landlords. For instance the coworking inclusion in the property portfolio appeared to enhance the performance and utilisation of commercial real estate.

While workplace evolution has historically being gradual, the coworking industry has been expanding at an exponential rate over the last decade in many global property markets (Knight Frank, 2017). For example, the total flexible office spaces available in the Asia Pacific region in 2018 is approximately 3.5 million square metres and this is an increase of 27% from 2017, and an increase of 56% in the 12 months prior (Boucher, 2018). Therefore, in recent years with the growing demand within the coworking culture, traditional office landlords have explored these new opportunities. They have strategically leased their office space to coworking operators within their own buildings and/or incorporated coworking spaces within their portfolio management.

Additionally, there are suggestions that the coworking phenomenon is the new office market disrupter or the ‘Uber’ of the office market. Unlike renting space in traditional offices, members of coworking spaces are not required to sign long term leases, pay any deposits or spend large capital outlays on fit-outs. The norm is for the coworking operators to provide membership subscriptions to the end users, who in return receive the right to use the office space and associated facilities.

This research paper examines the main issues and challenges faced by landlords who lease their spaces to coworking operators, and landlords who enter the market directly by developing and operating their own coworking platforms. The first part of the paper discusses the literature with regards to the adoption of coworking spaces both nationally and internationally. The research is undertaken by conducting case study analyses and in-depth interviews with two large property trusts in Australia. The paper continues with an analysis and discussion of the main themes emerging from the two case studies undertaken. The conclusion summarises the main challenges from the landlord’s perspective.

LITERATURE REVIEW

Coworking spaces are beneficial for those who desire an environment which facilitates creativity, critical thinking, knowledge sharing and collaboration. However these specific user requirements presented to landlords, will challenge and contest the standard way of providing working space, when weighted against the traditional office space environment. Research highlights the benefits of collaboration for start-ups to encourage creativity and innovation, and acknowledge that working in solidarity will not necessarily produce the required results (Gandini 2015; Gerdenitsch et al. 2016). Interestingly, research focusing on the challenges which are experienced from the landlords’ perspective do not appear to have been investigated as thoroughly. Therefore the literature review in this section links the needs of the end users, and draws together the subsequent emerging themes pertinent to landlords and coworking operators.
The business frontier

Serviced offices, which were introduced many decades ago into the commercial market offered a different package of benefits which included reception and secretarial services, phone lines, faxes and postal services; and included dedicated office space to the same users i.e. the right to occupy the same space during the term of the tenancy and short term leases. However, technological improvements such as the advancement of mobile phones, internet and cloud based access, has contributed to the revolution in the workforce (Waters-Lynch and Potts 2017). Additionally, the traditional 9 to 5 work environment is shifting, and remote working is becoming more popular and desirable.

Similarly, office space designs which provide an environment for cutting edge creativity, providing optimal use of space coupled with good lighting and enhanced workflow are transforming the traditional office space environment into more vibrant and engaging spaces. Therefore a key consideration for landlords is how to better utilize existing office space, simultaneously meet the changing nature of the workforce, and obtain maximum cash inflow of rentals.

For instance, the landlord faces the scenario of redesigning and modifying existing office spaces from the traditional blueprints to a vibrant engaging hub. In this regard, the research identified the need for a “supportive and a productive business climate” coupled with a “physical environment where creativity and innovation can flourish” (Fuzi 2015). Similarly, there is an expectation that coworking spaces will provide flexibility, and opportunities to access social support (Gerdenitsch et al. 2016). However these expectations have placed stress on the commercial portfolios with some landlords expanding their operations into the regional areas. Subsequently, there appears to be an increasingly popular demand to position coworking centres in key regional areas (Cameron 2012; Forbes 2014). Commercial landlords may consider this as an exciting opportunity to transform difficult to lease commercial premises into coworking vibrant hubs.

Coworking operators

Research by Brown (2017) suggests the use of caution when setting up coworking hubs, as not all locations will meet the supply and demand expectations. This is further reiterated with the consideration of the financial viability for landlords and if the coworking business model can be sustained (Brodel et al., 2015; Chuah 2016). This research has identified the difficulties in attracting new clients to a coworking hub, and the viability to sustain the membership fee, with some landlords indirectly offering a subsidised fee structure. However, a traditional standard lease usually attracts a free rental period upfront and therefore an on par comparison of the financial viability would be necessary. Internationally, major flexible office space providers such as Regus, Servcorp, The Executive Centre, Compass Offices and Asia Pacific Serviced Offices shifted from the traditional serviced office space model to the coworking hubs model which offered greater flexibility and innovative modern office designs (Office Hub 2018).

Building Specifics

The introduction of coworking space has raised concerns with the long-term demand for leased office premises; and the possible reduced demand for reactive expansion space, resulting in smaller but more stable tenant requirements (Knight Frank, 2016). Additionally the increased higher occupation density could cause structural stress on building services which were not designed for higher occupant density. Therefore many landlords will be required to invest substantial capital to upgrade buildings and space expansion, before leasing spaces to coworking operators. However, it is difficult to conduct rational cost-benefit analysis for such upgrades as there is no hard quantitative evidence available on the benefits of leasing space to coworking providers.

Therefore, well-defined provisions in terms of landlord consent on subleasing, terms between the provider and the end-user, restrictions on use of space and associated amenities, minimum space requirements per user, building operation and maintenance responsibilities and termination rights should be included in the head lease.

Building Amenities and Facilities

The younger workforce of today is a key driver of the coworking space and according to research undertaken by Office Hub (2018:5), “more than 76,000 people looking for flexible office space in 2017-18, coworking is most popular among 25-34-year-olds and steadily decreases in popularity among the older the age group”. In
a study undertaken by Steelcase360 (Knight Frank 2017) four main principle designs were identified to leverage millennial behaviours. These included a need to design for identity which includes the notion of social awareness and the awareness of environmental issues; the second was to design for growth, which includes team hub spaces, non-hierarchical and informal collaborative spaces. Thirdly the design should incorporate work-for-life, which covers support and physical wellbeing and a reflection of work-life integration; and fourthly to incorporate technology.

In 2017, WeWork raised the profile of coworking hubs, and influenced the awareness of a new working style. This included a focus on optimum spatial design and a community environment. Similar outcomes occurred with Workspace365, WOTSO Workspace and Gravity to name a few (Office Hub 2018). Similarly, a number coworking operators provide an in-house barista, sleeping pods and wellness rooms.

**Tenant Mix**

Traditionally start-ups are associated with thoughts of innovation and entrepreneurship with recent research labelling the space as a “new form of urban social infrastructure” (Merkel 2015). However whilst these coworking spaces are designed to encourage networking and collaboration, the outcomes are also dependent on user mix and location (Gandini 2015).

There are numerous benefits for users such as the cost elimination of setting up a home-based office and clearly separating home life styles and professional work commitments. A clear detachment is the elimination of merging the home and office environment (Land et al. 2012); and further research suggests co-workers have started to leave their computers at coworking centres, rather than taking their work home (Kjaerulff 2010; Cameron 2012; Forbes 2014). Therefore, these changing work patterns provide a guide for commercial landlords to rethink their tenant mix and how the spaces are used within industry. Where once upon a time, the traditional long term lease rental was the expectation for corporate businesses and freelance individuals chose to work from home, the last decade has witnessed a shift in the office environment (Dixon and Ross 2011; Bryant 2003; Brunelle 2013; Ross and Blumenstein 2013).

Additionally, when introducing coworking spaces into multi-tenanted buildings, landlords need to consider and address several issues such as appropriate tenant mix, compatibility between different end-users, relationships among other tenants and end-users, clarity as to the use of building common areas, and security issues within the building.

**Lease Specific**

Conventional office spaces on traditional leases may not be suitable for small scale organisations that require small office spaces. For example in Australia, more than 90% of businesses employ less than 20 people and therefore they do not require large office spaces (Philipp, 2018). The existing literature also suggests that in the traditional leasing environment, many landlords attempt to enforce strongly pro-landlord lease forms by being largely inflexible towards tenant lease requirements (Crosby et al., 2003; Crosby et al., 2006; Dunn, 2003; Edward and Krendel, 2007; French and Jones, 2010; Lizieri et al., 1997). For instance, in the UK, studies (Crosby et al., 2006; Sanderson and Edwards, 2016) identify a high level of frustration among tenants who are committed to leases that lack the flexibility in lease covenants, which ultimately affects their overall satisfaction with the lease.

Advancements in information and communication technologies and globalisation of business have created a need for flexible office environments in which people have more options for how, when and where to work (Kojo and Nenonen, 2016). One consequence of this paradigm shift has been the increasing demand for flexible spaces such as coworking spaces that allow occupiers to be more adroit in reacting to sudden changes in business conditions (CBRE, 2018). In contrast to rigid traditional leasing model, coworking spaces provide their occupiers the freedom to expand and contract their space requirements as needed and allow them pay for the space they actually use (Green 2014). This continued expansion of flexible spaces will drive a structural shift in the office markets, at least in the short-term (CBRE, 2018).
Valuation Specific

For many landlords a strategic approach is the ability to achieve an optimal balance of traditional and flexible spaces. Therefore landlords have the option to set up their own coworking platforms within their portfolios, by providing the services themselves, and leasing spaces directly to coworking space users. In fact, CBRE’s 2018 Asia Pacific Investor Intentions Survey found that about half of investors believe that allocating under 20% of the total lettable area of the building to flexible spaces can enhance the value of the property (CBRE, 2018).

Furthermore, Lizieri et al. (1997) identified that the institutional structure of the property market imposes certain constraints on achieving flexibility in leasing structures. These include valuers and valuation models penalising non-standard lease structures in the market, legal advisors resisting different contractual forms, institutional investors looking unfavourably on leases with flexible provisions, and tenants being unwilling to pay a realistic price to achieve flexibility. Changes in tenant requirements will influence the level and the stability of rental income. Therefore, any move towards more flexible patterns of occupation will tend to increase the risk of investing in real estate for developers, for banks financing and funding property and for long-term investors holding property as landlords (Lizieri, 2003; Chicago Business, 2019).

These changing patterns associated with the usage of commercial space, and the transformation of coworking hubs provides a new dimension to the commercial leasing market and the traditional landlord. The next section of the paper discusses the research methodology adopted for the two case studies selected.

RESEARCH METHODOLOGY

The qualitative research approach was selected due to the explorative nature of the research (Silverman, 2013). Qualitative data is contextual as the analysis involves developing insights based on a deep understanding of a particular context (Cassell et al., 2018), which is the objective of this research. Therefore, a case study analyses of two large Australian Real Estate Investment Trusts (REITs) were undertaken, with the aim to examine the issues and challenges faced by landlords when coworking spaces were included in their traditional office portfolios. The selected REITs are two of the largest Real Estate Investment Trusts in Australia and collectively own and manage over $18 billion worth diversified portfolios of high-quality Australian office, retail and logistics property assets (Annual reports of REITS). Both REITs have moved into the flexible office market and include coworking spaces within their office portfolios. One of the REITs has entered the market directly by developing and operating their own coworking spaces while the other REIT has leased several spaces to coworking operators who operate such workplaces. Therefore, the research was examined from two different investment perspectives. Firstly, in relation to the coworking sector directly owning and operating coworking spaces, and secondly indirect involvement in the sector by leasing spaces to coworking operators.

One-to-one, semi-structured, in-depth interviews were conducted with the National Directors of flexible space solutions in the two selected REITs to obtain an in-depth understanding of their coworking strategies and practices. Semi-structured forms of interviews were used as this offers a versatile way of collecting data, allowing the interviewer to use probes with a view to clearing up vague responses, or to ask for elaboration of incomplete answers (Welman and Kruger, 2001). Both interviewees held the highest level of responsibility for key property related investment and management decisions for their coworking spaces. Interview questions were designed to elicit an in-depth understanding of their perceptions and experience of incorporating coworking spaces to capture a market segment of start-ups and freelancers that otherwise would not fit under their traditional office leases. The topics covered in the interviews included their investment strategies in the coworking sector, their experience with coworking operators and users in their buildings, and the main issues and challenges faced by landlords when including coworking spaces within their traditional tenant mix. These findings were analysed using thematic analysis, which aimed to identify patterns or themes within the qualitative data collected (Creswell, 2009). The next section of this paper discusses the comments and feedback from the interviews.
RESULTS AND DISCUSSION

The coding system was developed from the semi-structured interview questions and the completed in-depth interview transcripts. There were seven main themes identified, namely business specific issues, coworking operator specific issues, building specifics, building amenities and facilities, tenant mix specific issues, lease specific issues, and valuation specific issues. These main issues and challenges faced by landlords when including coworking spaces within their portfolios are discussed, supported with quotes from the interviewees.

Business specific issues

There are suggestions that the coworking phenomenon is the new office market disrupter or the ‘Uber’ of the office market. Both interviewees shared a common view that the relative immaturity of the coworking sector creates challenges for landlords when understanding the long-term prospect of the sector as ‘it has not been tried and tested in every market condition’ (Interviewee 2). While acknowledging that the sector performs well in current stable market conditions, they raised concerns about the unknowns of its resilience during market downturns. Therefore, they emphasised that the next recession will be a true test of the long-term sustainability of the coworking model. One interviewee explained their concerns as follows:

‘X (name of a high-profile global operator) definitely has a place in a lot of buildings, I would not be worried about putting them in my buildings now. I would be worried how they are tracking in 5 years’ time. And I think we need to go through a few cycles to figure out what it might look like. Is it a trend or is it a fad? I don’t have the answer, we just don’t have enough evidence to know the answer’ (Interviewee 1).

This was mainly due to coworking operators’ commitment to long leases while generating revenue through short term subscriptions with space users to generate their profit. Unlike renting space in traditional offices, members of coworking spaces are not required to sign long term leases, pay any deposits or spend large capital outlays on fit-outs. Therefore, any downturn in market dynamics could adversely affect operators’ profitability. The impact of a contracting economy would create more adverse consequences to landlords with non-traditional lease models such as revenue sharing models. The interviewees claimed that high-profile operators often try to negotiate non-traditional lease covenants such as below-market rents, longer leases, increased tenant improvement allowances, lower bank guarantees, which will transfer more cashflow risk to the landlord in uncertain market conditions. Furthermore, landlords lose control over the end-users of their premises by leasing office spaces to coworking operators on long term leases. This affects their desire to maintain control over the type and character of the businesses located in their buildings.

Coworking operator specific issues

The interviewees also raised their concerns about the increasing number of coworking providers entering the market causing uncontrolled competitive pressure. As one interview suggested:

‘There is a lot of competition, a lot of operators. There are a lot of global brands coming in. We kind of have the McDonalds of coworking at the moment’ (Interviewee 1)

They further suggested that variations in some operators’ business models and pricing options raised the question about their long-term staying power. One interviewee explained that ‘their financials are terrible, but their marketing is ace. And then they have price points where you wonder how they survive, so it’s a bit of a watch this space’ (Interviewee 1). While high profile coworking operators run with profits, the interviewees shared their fear that many smaller independent operators run with loses or insufficient profit margins suggesting they might not survive the next market downturn. Confirming this, the existing literature suggests that the coworking industry remains extremely fragmented with high profile operators accounting for just 22% of the market footprint (CBRE, 2018). Therefore, the interviewees emphasised that landlords need to know their operating history, credit history and target market of their coworking business, particularly given the variability nature in their business model. As explained by one interviewee:

‘The information we essentially collect is their market experience, business profile, facility and services offering and their lease model. We need audited financial statements to understand viability that might then give us a bit of comfort for accepting a 3-month bank guarantee instead of a 12-month...’
bank guarantee. These are really important because they identify any risks and strengths we are associated with’ (Interviewee 1).

Ultimately the landlord needs to ensure that coworking providers’ profiles are appropriate to their building, its existing tenants and the neighbourhood. However, the limited track record and credit history of coworking operators creates additional investment risks when making that decision.

**Building specific issues**

Both interviewees emphasised that for existing buildings, there is a challenge that the building floor plates may not facilitate the requirements of the coworking concept. In particular, the buildings used for coworking spaces must have efficient floor plates that consist of large uninterrupted, regular shaped floor plates, simplified building specifications and good natural light which create ‘the feeling of space’ (Interviewee 2). Those floor spaces need to have long building spans which allow the spaces to be arranged for different types of work settings. Furthermore, the interviewees suggested that floor to ceiling height in floor spaces should be consistent throughout the space allowing efficient use of the floor space and good natural lighting and ventilation for coworking spaces. Therefore, buildings with smaller floor plates may not be appropriate for coworking as they limit the ability to facilitate dynamic, interactive and collaborative working environments.

Space intensification in flexible office spaces would place additional structural stress on building services if not designed for the future demands associated with such high density uses (Brittain et al. 2004). Therefore, both interviewees emphasised that the buildings where coworking spaces are located should have flexible building services which are capable to sustain the demand from space intensification. The buildings must have flexible building services such as HVAC systems, electrical systems, lighting, ICT and vertical transportation that are able to cope with the additional operational requirements. As explained by one interviewee:

"you don’t want coworking spaces to impact on any of your lifts or services. Those are the things you have to be really careful about because you don’t want to put a coworking group on level 26 and then they are all using the lift at the same time at 9am and all the people from other floors are sitting downstairs waiting for lifts for 5 or 6 minutes. The impact on AC and services is massive as well (Interviewee 1).

Overall, coworking spaces place challenges on traditional office building designs as they are required to respond to the needs of higher occupant densities and extended working hours. Therefore, many landlords are required to invest substantial capital on building upgrades and expansions before having coworking spaces to facilitate additional structural stress on building services. However, the interviewees suggested that it might be difficult to conduct rational cost-benefit analysis for such upgrades. This is because there is no hard-quantitative evidence available yet on the benefits of leasing space to coworking providers compared to leasing spaces to traditional tenants.

**Issues with building amenities and facilities**

Both interviewees emphasised that typical office buildings should be reshaped to facilitate coworking spaces by designing office spaces with elevated service levels and higher-touch amenities to complement space users’ lifestyle that merges the traditional distinctions between working and living. Their coworking spaces have access to various amenities and facilities such as 24/7 access, on-hand concierge, internal high-quality cafeterias, larger atria/lobbies and lounges and cybercafés. Furthermore, top-tier building amenities such as childcare facilities, gymnasiums, games rooms, yoga studios, meditation classes, green spaces within the premises, on-site secured lockers, bicycle storages, changing rooms and shower facilities within the building are common in buildings with flexible spaces as they are changing towards service-oriented buildings.

Both interviewees stated that high quality building amenities would create all-inclusive home environments for occupiers and enhance the physical and psychological wellbeing of coworking space users who work in high density office environments. They aimed to differentiate their spaces from the rest of coworking spaces by providing various amenities and services as part of the space design. The interviewees further suggested
that more and more space users demand diversity and variation in workplaces, however, offering a wide range of building amenities and services can be costly if the building was originally not designed with such features.

**Tenant mix specific issues**

Both interviewees emphasised that when introducing coworking spaces into multi-tenanted buildings, landlords need to consider their existing tenant mix, compatibility between other tenants and coworking users, clarity as to the use of building common areas and security issues within the building. They further suggested that there will be potential negative dynamics if coworking spaces do not provide service and complement the property’s and neighbourhood’s incumbent corporate tenant mix. The interviewees explained it as follows:

‘Some of it will be about perception as well. I really have to know if half of my building is coming in in jeans and t-shirts or thongs or shorts. When I have 7 floors of top line law firm I’ve got to be very conscious that it has a real impact on their brand and reputation as well as my brand and reputation as a building owner when you try and nail your reputation as a building that attracts prime tenants’ (Interviewee 1)

I think that when tenants come to the building and ask, “do you have a coworking group in the building?” and you say yes, and they say that’s great, but they find out they are on the floor directly below them and share a lift rise then it is a different story. So, if it starts to impact on some of your other tenants you might not see that immediately from a valuation perspective but over time you will see that as a negative impact’ (Interviewee 2).

The interviewees also noted that there will be several issues if coworking spaces were not placed in appropriate floor levels as it could cause issues with building systems and services and create disruption and security concerns to other occupiers. For example, one interviewee suggested that putting coworking on ground levels was one of their main strategies as it makes better use of lobbies and provides greater flexibility in how they manage peak demand for building systems and services.

‘We put a coworking group in the ground floor in one of our buildings. Essentially, they enter off the ground level and they have all this little basement levels down below and it is the perfect scenario because they don’t impact on any of your lifts or services, you can segregate any of the mechanical services that allow you to separate things like AC as you need it’ (Interviewee 1).

**Lease specific issues**

Both interviewees suggested that landlords could face major issues with the operation of their assets if the lease agreement did not have sufficient provisions in relation to the use and operation of the premises by coworking operators and their members. Due to high intensity uses and longer operating hours, the provisions of leases with coworking operators should be different from traditional office leases. As explained by one interviewee, ‘You can’t just have a typical commercial lease anymore. Clauses now have to be things like utilise this space across the hallway as a function area and a café for both staff and clients and all that should get built into the lease’ (Interviewee 1). Both interviewees insisted that they only use net leases with coworking operators where tenants are responsible for operating expenses associated with their premises, however many coworking operators are reluctant to pay additional operating expenses related to their spaces. As suggested by one interviewee:

‘If they have an event, we might need to put a sweat system in. Coworking groups are generally very reluctant to contribute to those types of things. They consider them base building and the landlord’s responsibility. The rest of the tenants shouldn’t be penalised for my coworking group having an extra 50 people on the floor. So, they should clearly be drafted into the leases, like exclusive uses which if they need something that goes beyond our standard scope then it will be directly charged to them’ (Interviewee 1).

They further suggested that some established coworking operators demand above market rent incentives, fit-out contributions, lower security deposits and longer than market lease terms which can have significant
implications on landlords’ net operating income. Therefore, it is imperative to have well-defined lease provisions in the head lease in terms of landlord consent on subleasing, terms between the operator and the end-user, restrictions on use of space and associated amenities, minimum space requirements per user, building operation and maintenance responsibilities, operating expense sharing process, expansion and contraction rights and termination rights. To minimise the impacts of uncertainties associated with coworking spaces, it was recommended that landlords seek greater covenant protection in leases with coworking operators.

Valuation specific issues

While both interviewees held the view that coworking spaces can increase the value of the property, they emphasised that the traditional valuation approaches were not necessarily suitable. For instance it is difficult to incorporate the impact of coworking spaces for commercial property values due to a lack of hard data supporting these views. They both confirmed their premium buildings which incorporate coworking spaces in prime locations, rarely command a capital value premium. One interviewee explained their experience with the valuation of a building with coworking spaces as follows:

‘I have a coworking provider on a management agreement; they have killed their budget every time, they have absolutely smashed it by 20, 35%, which means overall the owners of this building are going to get an extra $50k a year in rent and NOI than we would otherwise if we were to use a traditional rental lease at market rent. Unfortunately, because coworking is so new there is not enough evidence’ (Interviewee 1).

However, one interviewee suggested that there are some signals of growing awareness among valuers of the existence of the association between coworking spaces and their property values. The interviewee explained that they are “definitely starting to see some valuers putting some “do you have a coworking space in the building?” type questions when they are doing a walk around, however I haven’t seen cap rates move because of it. So, I don’t think that it is there yet’ (Interviewee 2).

The interviewees suggested that the presence of high-profile coworking operators in their buildings has helped to generate demand from other tenants who have varying space demand due to their ability to use coworking spaces if they require more desks for their peripheral workforce. However, they strongly believed that the impact of coworking spaces on property values will only become apparent when the industry matures and weathers a full economic cycle with sufficient data to prove the link between flexible spaces and higher returns.

CONCLUSION

Landlords are incorporating coworking spaces into their office portfolios to meet the growing demand for flexible, scalable, collaborative spaces with short term leases. The findings from the two case study analysis included challenges associated with business, financial, tenant mix, building specific, lease and valuation specific issues. Both interviewees highlighted the importance for users to enjoy coworking vibrant hubs. For instance, popularity to provide engaging breakout and networking areas is a major consideration, together with facilities incorporating refreshments and social engagement, diversity and individual experiences such as courtyards, cafes and social destinations.

Other key points of consideration include the size of the floorplate and the associated space intensification, coupled with the additional building stress. With the growing demand for office environments offering social connectivity and interaction, there will be the ongoing requirements for the landlord to invest in the coworking modernisation and upkeep of their building asset.

Additionally, large scale landlords’ investment behaviours and experiences will alter. For instance, the requirement to invest capital for the modification of existing traditional commercial office space, into coworking hubs; and simultaneously maintain the stability of their cash flows. Furthermore, the case study organisations generally own prime quality buildings located in prime locations. Therefore, the findings of this research must be seen as only truly representative of the groups that participated in this research. A study addressing the analysed themes in small scale, less sophisticated coworking spaces would add another dimension to the findings of this research.
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