

Flexible Office the New Dimensions of Tenancy

US Flexible Office Report
Q3 2017





"65%

65% of enterprise companies plan to incorporate Coworking into their portfolio offering by 2020."

CBRE Enterprises Survey

New Dimensions of Tenancy

Secular market trends are pushing companies to select shorter term, flexible office space options. These trends include: workplace mobility, startup growth, small business job creation, the rise of the contingent workforce, accelerated business cycles, new accounting standards, and sharing economy sensibilities. Companies, of all sizes, face a myriad of business scenarios, from needs for touchdown workspaces, to regional expansion offices.



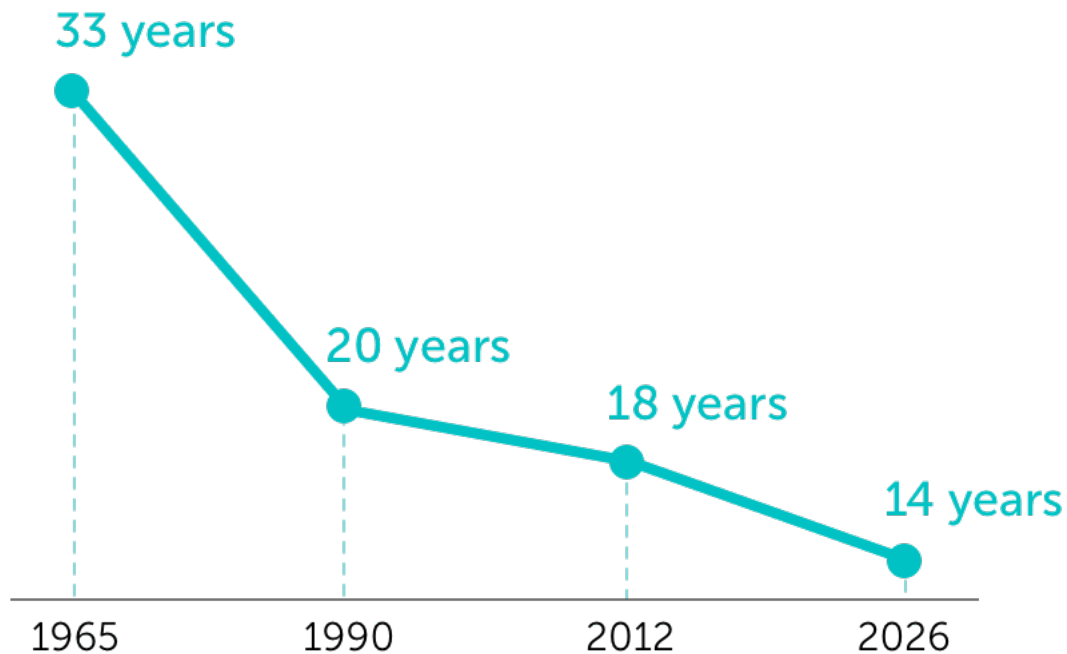
"Flexible office solutions continue to be a part of our real estate strategy where it makes the most sense. For example small sales sites, new markets, on demand meeting space, etc."

Scott Wescoat

Real Estate Manager, Texas Instruments



Fortune 500 Company Lifecycle



These business requirements force the CRE world to rethink how we deliver real estate. A traditional 10-year real estate lease can't solve the flexible requirements of today's companies. According to *Corporate Longevity: Turbulence Ahead for Large Organizations*, the average lifecycle of a Fortune 500 company was 33 years in 1965. That lifecycle was down to 18 years in 2013, and it's projected to shrink further – to 14 years – in 2026. In addition, there's a staggering 90% startup failure rate. Shrinking company lifecycles bring into question the viability of traditional 10-year leases.

Core



Headquarter

1000s
employees

Decades
Commitment

Management
Driven

Flexible Office Opportunity



Mobility

1
employee

Hours
Commitment

Employee
Driven



Project

10s
employees

Months
Commitment

Team
Driven



Swing

10s
employees

Months
Commitment

Team
Driven



Satellite

10s-100s
employees

Years
Commitment

Customer
Driven



LiquidSpace is the largest Network for flexible office space. Built to simplify the discovery and transaction of commercial real estate, our Network has facilitated over 3.5 million transactions and connected over 72K teams and companies to more than 3,200 office locations in over 750 cities. Find and book space on flexible terms, from 1 hour up to 3 years.



Core

The traditional real-estate model of 5 and 10 year leases remains a valuable one for established companies establishing company headquarters or large regional offices. Cities are vying for the attention of Amazon in selecting their HQ2 campus location. According to the New York times "business leaders in Tucson have gone so far as try to mail Jeff Bezos, a 21-foot cactus". Apple is taking 76,000 sq ft of space to establish its San Francisco presence. Companies internationally are establishing large campuses that are more conducive to longer term leases.



Flexible

New dimensions of tenancy are forcing customers to look at flexible office options as an alternative to traditional real estate models. What are these dimensions? We've seen immense startup growth, preference for workplace mobility, more small business jobs, and favorable sentiments around the sharing economy.





There are four business scenarios that LiquidSpace flexible office customers demand. They are: 1. Mobility, 2. Agile project space, 3. Swing space, and 4. Satellite office space.



Mobility

Companies choose flexible office space for the duration of hours or days. Clients from Pharmaceutical corporations to Telecom have a percentage of their workforce that is on the road. These teams are often in sales or client advisory. They need space for the duration of several hours or days near their clients.

Other companies choose to offer mobility options to their employees to increase productivity and job satisfaction. The primary driver for instituting these programs are employee satisfaction, retention and productivity improvements. Mobility programs offer touchdown space anywhere through the LiquidSpace network and or dedicated hub offices closer to their employee's homes or the employee's clients. Mobility programs give management oversight and control and employees shorter commute times, flexibility and productive space.



Agile Project Space

Companies choose flexible office space for the duration of the project. Service oriented companies from Management Consulting to Media require dedicated space for the duration of their projects. Teams working on production projects have a need for flexible office for the duration of their and their client's projects. Projects



tend to span weeks or months and can extend at a day's request from a company's clients.

Companies choose collaborative private team spaces that embody their culture, and have a level of service and veneer that is appealing to host their client in. Agile project space needs depend on client requirements and projects won. Thus the space requirement often has a short decision time requirement based on project win date, and project start date. Plus a quick decision time to extend the space as the project requirements extend.



Swing Space

All companies go through a time and a need for swing space. The majority case occurs when a company embarks on building out a new office space and needs a transition space for several months, while the buildout completes. Because there are often construction and permitting delays, customers extend their space in 30 day increments, which they can easily adjust on flexible terms with LiquidSpace.

The more unpredictable use for swing space, is to weather unforeseen disasters. The top three natural disasters are hurricanes, floods, and fires. In a crisis, a business continuity strategy that includes on-demand flexible space access is a win for employees and the bottom line.



Regional Office Space

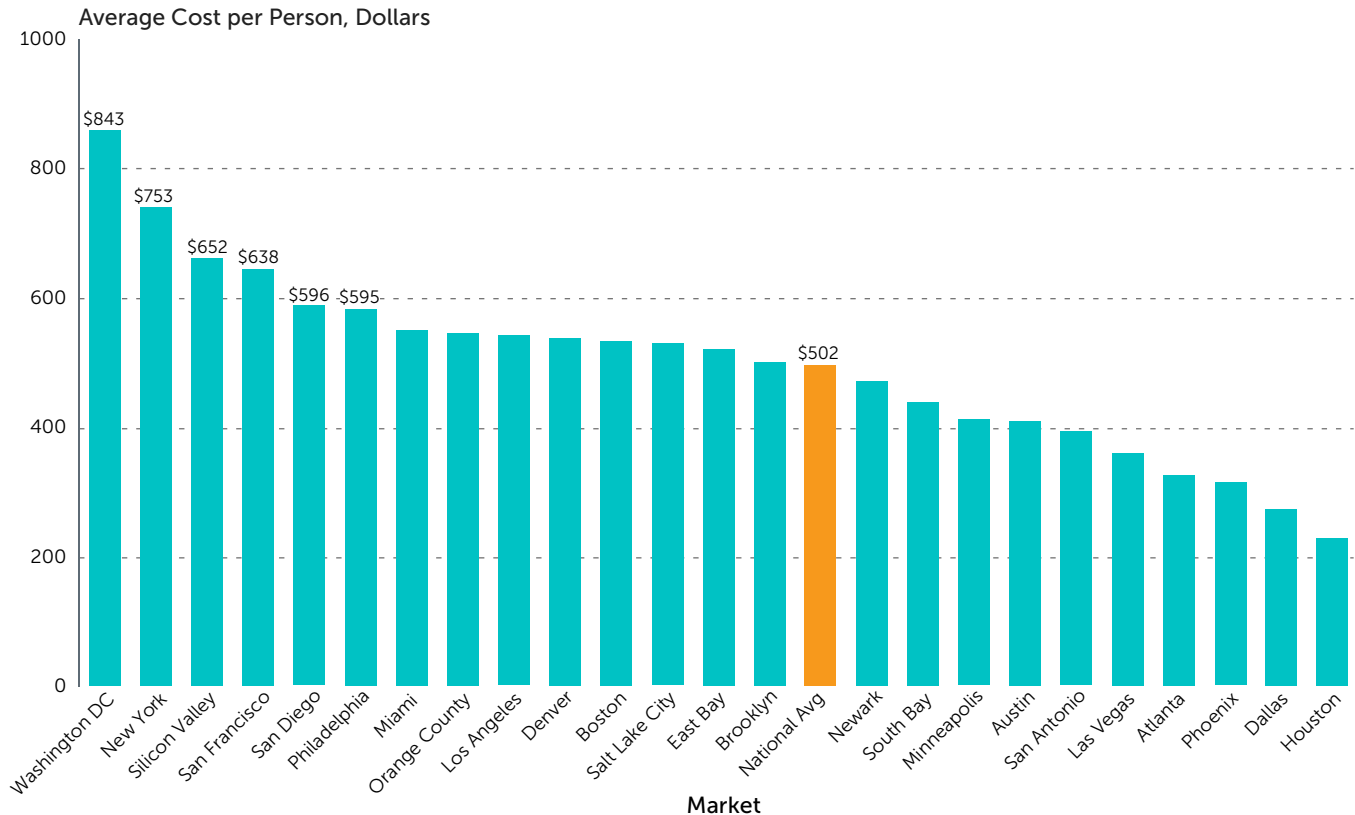
Companies choose satellite offices for the duration of months or years. Companies launch satellite offices to test a new market. These test office spaces can last for months or years depending on the market's success. Regional offices often grow as they start including more departments. Regional offices shrink when absorbed into headquarters or nearby hub spaces or when a test market does not succeed.

At market expansion stage companies tend to value the nourishment of their own culture and have longer lead times in months in choosing the right space for the team. The regional office starts with a department or set of departments.

All of these scenarios and additional evolving business needs challenge the traditional real estate model. Headcount might go from 10 to 50 to 100 to 10 in the course of two years. Touchdown space needs follow the customer's needs. With flexible office options, customers no longer have to choose to take on more space than they need to accommodate for growth. They can get an office that grows with them, or book on flexible terms.



Average Monthly Rent per Person in US Markets



Average Rental Rates are calculated by dividing the asking rental rate by the maximum capacity of each space.

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For More Info Contact the LiquidSpace Research and Analytics Department
marketing@liquidspace.com



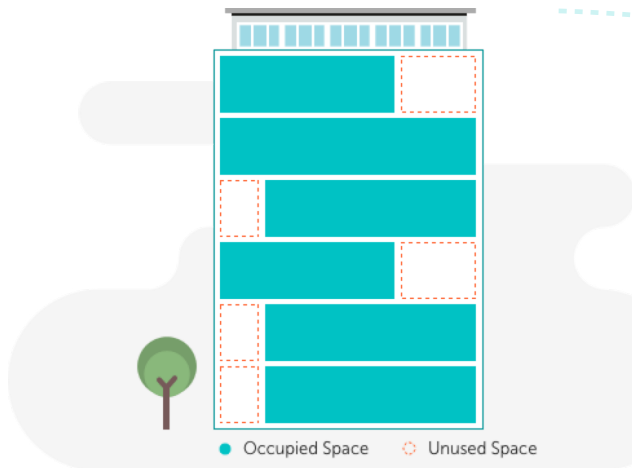
Flexible Tenancy Enables Fuller Utilization in Traditional Assets

We can't ignore the growing trend of flexible tenancy. Traditional real estate companies must align to the evolving wants and needs of today's companies and employees. When we look at vacancy rates, we typically only see one part of the story. To understand how we utilize space, we must examine "effective vacancy". Effective vacancy = true vacancy + under utilization. That includes how much of a space is always unfilled, plus the times during which the "filled" space goes unfilled.

When we consider company growth against the terms of a traditional lease, issues in that old model come to light. It's easy to see that during the front end of an office lease, the company may have excess space, and during the tail end, they may not have enough space. From a sustainability standpoint, we can do better. How? The solution is flexibility.

Effective Vacancy = True Vacancy + Under Utilization





Asset Inefficiency of the Traditional Leasing Model

Often, available floor plans are larger or smaller than what a tenant needs. This results in big block leasing and leaves behind white space that is not used between tenants. This white space sits idle waiting for the long term tenants to move out. Previously it was not possible or convenient to lease it out. From an asset management and investment perspective none of the building portfolios have ever been more than 90% full. There is an opportunity to bring utility to this white space through flexible tenancy.



Underutilization of Leased Assets

Even spaces that are leased with the traditional model often times are unutilized or underutilized. This is because teams expand and contract at the pace of business, while the square footage of their lease remains fixed. There is an economic potential in enabling occupiers to license space



they lease from buildings on flexible terms. In 2016 30% of the LiquidSpace flexible supply came from private business licensing their unused space. This sector has grown to now represent 35% of the LiquidSpace flexible office supply. We predict further growth in 2018.

33%
Transport



29%
Industry

39%
Building

Sustainability Paradigm for Increasing Building Utilization

Increasing building asset utilization not only makes sense from economic and retention perspectives, but from the sustainability perspective too. Buildings, commercial and residential, contribute to 40% (30 quadrillion BTUs) of U.S. energy utilization. The building sector accounts for 39% of the U.S. carbon footprint. This carbon footprint is larger than any other sector, and larger than any other country outside of China. Against a sustainability imperative on a warming planet there is cause for us to do something more.



Taking the original paradigm summarized in the quote “The greenest building is the one already built” LiquidSpace proposes an update “The greenest building is the one already built, and augmented with flexible office solutions for maximum utilization.”



“Originally we reached out to LiquidSpace for a solution for booking conference rooms. Later we found they were listing some really great office space. So we started out listing our executive suites, collaborative space, and private offices. Those listings started doing really well. Meghan, Ricki, and Esther from the LiquidSpace team worked really closely with me to optimize the listings and update availability every month. We’re in regular communication with them for any relevant deals.”

Heather Shuttleworth

Marketing Director at Boxer Property



altSpace

Adjusts the Timescale of Building Systems to Flexible Tenancy

altSpace, the office fit-out solution by LiquidSpace, brings efficiency into the building model by making the fit-out layer of a building work on the same time scale as current occupier business scenarios require. altSpace takes the the fit-out layer, and re-engineers it to function on the flexible terms that today's business scenarios demand.

The altSpace model relaxes the requirements for the services layer in a building, decreasing the overall TI costs. altSpace by LiquidSpace can be up and running in 60 days and work for clients requiring space for six months or longer. Since we streamline the furniture and design elements, this puts less strain on buildings for tenant improvement costs.





Enterprise Needs Changing Flexible Office Sector

At LiquidSpace we see an increasing number of office requirements coming from Enterprises. This need is predicated on the business scenarios driving their dimensions of tenancy. "By 2030, JLL predicts that 30 percent of corporate real estate portfolios will be dedicated to coworking or flexible space solutions." LiquidSpace predicts that by 2021 80% of our customers will be enterprise customers. Enterprises choose LiquidSpace for the market breadth of options and insights into space availability for their evolving business needs that governs their commercial real estate portfolio.

Coworking Shaping Enterprises

Coworking emerged from freelancers and entrepreneurs wanting to build community amongst one another. These operators drove forward open, cool, design forward spaces that are attractive to young talent. Trends we now see many corporations adopt in building their office spaces and selecting spaces they want their employees to have access to. Coworking spaces are attractive to enterprises where their customers are



"I see lots of companies using open floorplans, including kitchens, having quiet-pods, and unassigned desks for their staff. All these concepts are borrowed from coworking."

Mark Davis

Manager at CodeChops



startups and freelancers. These corporations want to be where their customers are. Some examples are advisory, accounting, consulting and marketing firms. Coworking spaces are attractive from a talent pool perspective as they are buzzing with growth minded entrepreneurs and freelancers. Thus providing a talent pool to coach, mentor and attract future colleagues

Enterprises Shaping Coworking

However, as more enterprises gravitate towards flexible office, they are bringing their list of demands and undoubtedly shaping the future of coworking. Here are several requirements we see Enterprises push for.

Culture Coding

At a certain stage in scaling an organization, that company begins to focus on creating and nurturing their own culture. This is a key to what keeps the company together and growing. The company wants to look inward to reinforce that culture. Dropping a team with an established culture into a porous environment that has its own culture can be a negative. Teams that get to a point of growth and enterprises are looking for space where they can create and nurture their own culture. A premium is therefore put on flexible spaces that can do custom work to help the company continue to grow its culture within the space.



"The stereotype of who works in flexible or coworking spaces has evolved. At Industrious, we currently see about 50% of our business coming from enterprise companies and anticipate to see that grow as the Fortune 500 seek remote offices for an increasingly geographically scattered workforce."

Jamie Hodari

Founder, Industrious



Privacy and Security

Enterprises require private, large, secure spaces. There is a time and a place to interact with other companies, but most of the time, the team needs private space. Enterprises do not want their teams intermingling with other companies. Enterprises are selecting coworking operators where their privacy needs can be met.



"Coworking or shared workstation settings don't lend themselves well to our organization due to the privacy required to conduct our operations."

Scott Wescoat

Real Estate Manager, Texas Instruments

New Amenity Requirements

It used to be bean bag chairs and foosball tables were in demand. Different productivity-focused amenities are becoming the must haves to attract enterprise customers. From high speed internet, VPN Access, IP whitelisting, secure networks, to skilled receptionists and top notch facilities management – there are various amenities that sustain a happy enterprise customer.



"Less about the cultural of integration, more about the culture of Enterprise easy, secure, tech-enabled, know-how - -- working with procurement, administration in addition to actual users/members"

Steven Whittington

Founder & CEO, LifeWorking Coworking



Space to Expand Into

Enterprises have lots of employees, by nature. This pushes the boundaries of coworking spaces, originally created for individual workers. These demands are forcing a paradigm shift in how coworking operators create their next spaces to cater to growing team needs.



"Enterprise companies are now allowing us to build larger offices that are meant for groups for 20+. Not only that, the option for coworking spaces to build custom offices is now on the table. It allows coworking spaces to expand their offerings while also experimenting with design."

Carly Moore

Community Manager, Bond Collective

Specific Physical Requirements That Enterprises Want

98%

Flexible Contracts

92%

Private Space

75%

Secure Space

63%

Different Amenities

*Results a combination of LiquidSpace survey to enterprise customers and venue operators catering to enterprise customers



Enterprise Opportunity for Buildings

By their nature enterprises and growing teams are requiring large, private, secure spaces with an opportunity to expand. Building operators are perfectly positioned to accommodate these requirements for whole and multiple floor requirements. One paradigm shift here for buildings to get onboard with, and we are seeing more and more of our buildings adopt to is flexible monthly and yearly leasing contracts. 15% of the LiquidSpace networks are now building owners (up from 6% in 2016) supporting the notion that buildings are progressively getting onboard with what their customers are asking for - flexible tenancy options.



"Owners & the brokerage community are dependent on the goals and expectations of the end user/tenants, so as these entities continue to demand flexibility and mobility to achieve their occupancy goals, the CRE community will need to offer opportunities that provide these objectives which go well beyond the Core/Traditional leasing standards...If they don't, they will be left behind."

Charlie Morris

Principal at Avison Young





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