GLOBAL WORKSPACE ASSOCIATION

2020 INDUSTRY BENCHMARKING STUDY

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Contents

THE GLOBAL WORKSPACE ASSOCIATION is the professional association for members of the flexible office industry including shared workspace operators, corporate real estate professionals, real estate investors and service providers.

We are on a mission to help our constituents be current, connected and competitive.

Thank you to our sponsors & supporters

Thank you to our lead sponsor, Staples, for providing prizes to our two group of survey participants.

A sincere thank you to each operator that entered financial data. We know this is a big ask and it's an incredible gesture of support to the industry. May others follow in your brave footsteps.

The 2020 Industry Survey was distributed to hundreds of operators of shared workspaces. Detailed results are presented in the following pages.

The goal of this report is to provide trusted industry benchmarking data to help operators, investors, and other industry members start and run better businesses.

If you have questions, suggestions for our next report, or are interested in sponsoring our next report, please email Jamie Russo at jamie@globalworkspace.org.

- The GWA Board

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The 2020 Flexible Office Outlook

Industry observations and predictions

As the world continues to redefine "work" and "office" and adopt flexibility and more work/life balance, the flexible office and coworking industry provide a unique opportunity and viable solution for clients ranging from one-person startups to large corporations seeking to attract and retain top talent globally. As evidenced by the rapid global expansion of flexible office and coworking spaces across the globe, flexibility is the "future of work."

As flexible office space is becoming more well known and accepted - with 3,205 U.S. spaces as of 2017 per a report by Emergent Research - it is predicted to see a powerful jump in popularity in the U.S. in the near future, and even more so in some international markets. Several industry reports predict demand for around 10,000 U.S. coworking and flexible office spaces by 2023 —growth that is largely driven by bigger companies utilizing coworking and flexible office space, per a 2019 report by the Instant Group. According to a 2019 CBRE report, flexible office space may jump from its current 2% of office space to around 13% by 2030 in the U.S., while coworking and flexible office space is growing more quickly in some international markets, like London and Shanghai. Coworking is not only becoming a more well-known option, but in many cases, a preferred option, as clients view coworking as a more evolved and flexible way to work.

2019 saw a significant year of growth in size for coworking and flexible office spaces in the US. According to a recent report by the Instant Group, those that opened their doors in 2019 had a gross footprint of 50% more square feet than those opened in previous years.

This trend towards larger spaces is marked by an expanding portfolio of services. To grow, compete, and meet consumer demand, coworking and flexible office spaces are recognizing the importance of expanding their portfolio of services - from virtual offices and onsite concierge services to conference room packages and day passes - to target and capture more diversified clientele to accommodate a changing client base. The increasing popularity of landlord/operator partnerships are also granting operators the flexibility to further tailor programs to meet specific client needs as operators leverage amenities that are part of a larger office portfolio ecosystem.

Not only did average gross footprint grow, but 2019 saw demand for larger suites – those that accommodate 25 desks or more – drastically increased, rising as high as 13% in some markets like New York (up from 6%). JLL predicts that the trend of larger companies utilizing coworking and flex office space is contributing to this demand which is leading to "limited availability" of space in top-end brands through 2022 and 2023.

Now with the brief context of how coworking fits into the commercial real estate industry as a whole, let's review the survey results and highlight some insights from the operator-level data that we collected in our Industry Benchmarking Survey.

Our respondents operate

5.6 million sq. ft.

of flexible office space.

47.4%

identified themselves as coworking spaces.

42.9%

identified as serviced offices and the rest private businesses or landlords.

Products & Services Offered

Objective of this section

One of our goals for this survey was to help shared workspace providers determine what mix of products and services are most profitable. The decision is always up to the operator to deviate from this mix due to other business goals, but we want to provide this data as a starting point.

"Space" products

"Space" products included in the survey were:

- Private offices
- Dedicated Desks
- Monthly, unlimited coworking
- Part-time coworking
- Day passes
- Hourly access
- Daily/Hourly Meeting room rental
- Conference room rental

"Service" products

"Service" products included in the survey were:

- Virtual Office
- Phone hardware and service

Insights from the data:

- Virtual office offerings are serious revenue generators for serviced offices and not coworking spaces.
- Coworking spaces offer larger offices for teams than serviced offices.

GWA Advisory Board member and President at Flexspace Advisors, Casey Godwin suggests that the variance in virtual office revenue is due to their location (CBD or prominent property address) and type of property located in (class A). Coworking operators have been opting for smaller trendier properties for signage opportunities and ease of access, but those properties are less appealing to the Virtual Office clients who want to associate their businesses with high end class A properties.

Products & Services Offered

89% of Coworking spaces offer private offices. An 11.25% increase since 2017.

Coworking and Serviced Office product offerings continue to look more similar as demand for private offices grows inside Coworking spaces.

95.5% of Serviced Offices offer virtual office plans.

Of these, 75% of Serviced Offices offer VOIP services, while only about a third of Coworking spaces do so.

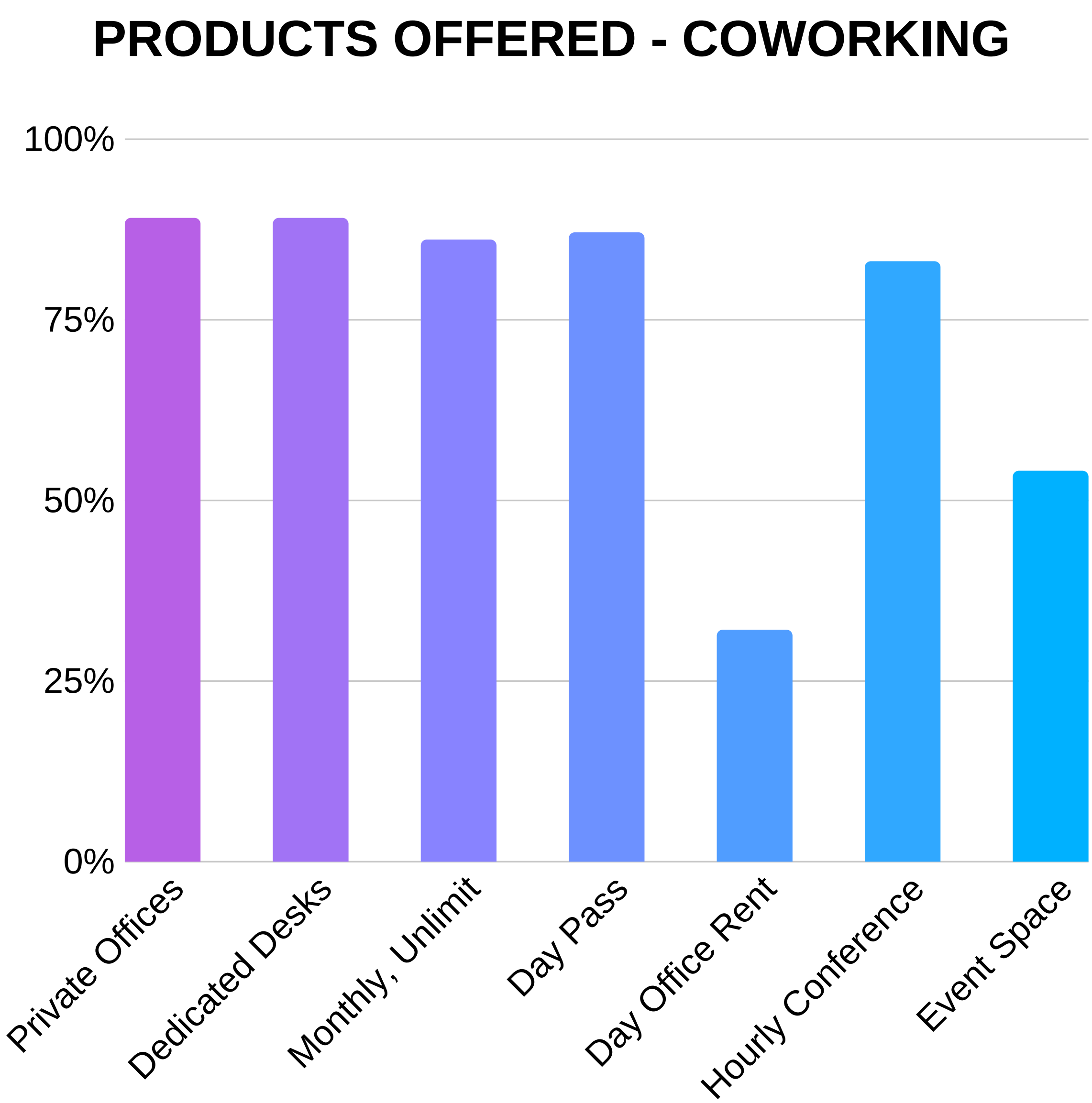
Products & Services Offered

Services Offered by **Coworking Spaces**

67.3% of Coworking space respondents offer a ‘Virtual Office’ service, while only 33.3% offer VOIP service to their members. These numbers are down from 77% and 40% compared to 2017 results.

Products Offered by **Coworking Spaces**

The chart below details the products offered by coworking spaces.



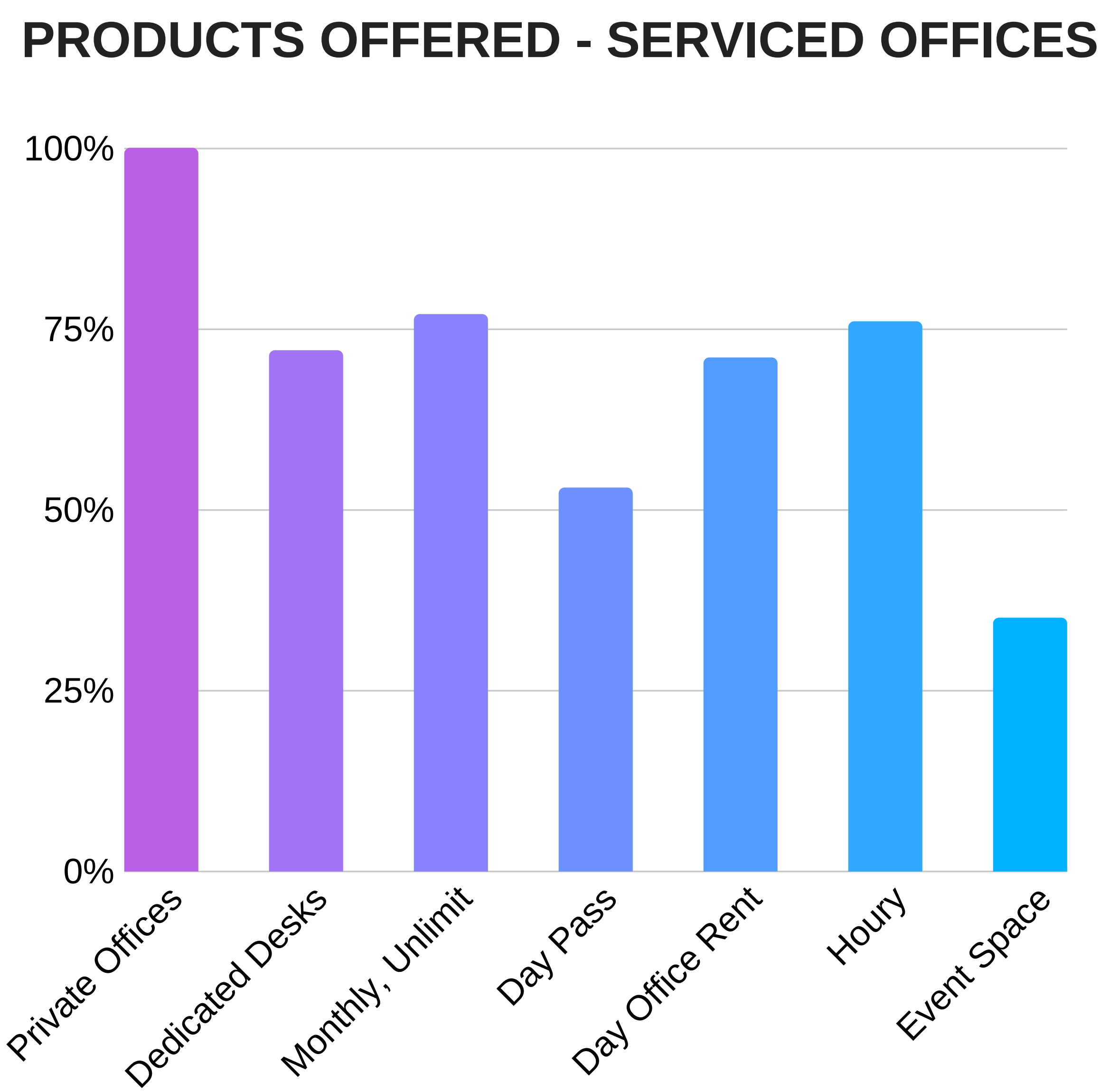
Products Offered - Services Offerred

Services Offered by **Serviced Offices**

Virtual Office services are offered by 95.5% of Serviced Office respondents, down from 98% from the 2017 survey. However, a larger percentage of respondents are providing VOIP phone service, up to 75% from 65% in the 2017 survey.

Products Offered by **Serviced Offices**

The chart below details the products offered by serviced office respondents.



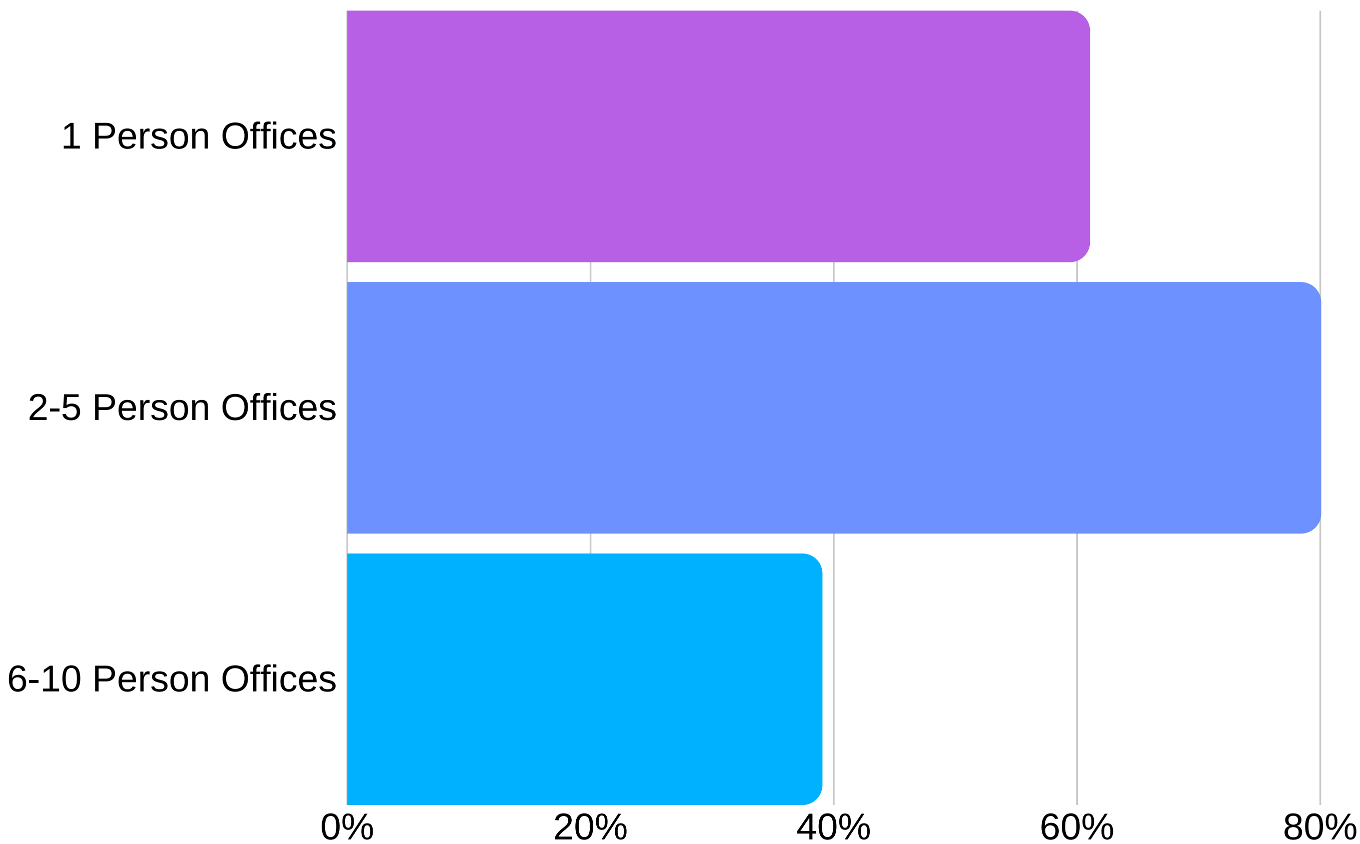
Products & Services Offered

Size of private offices across all respondents:

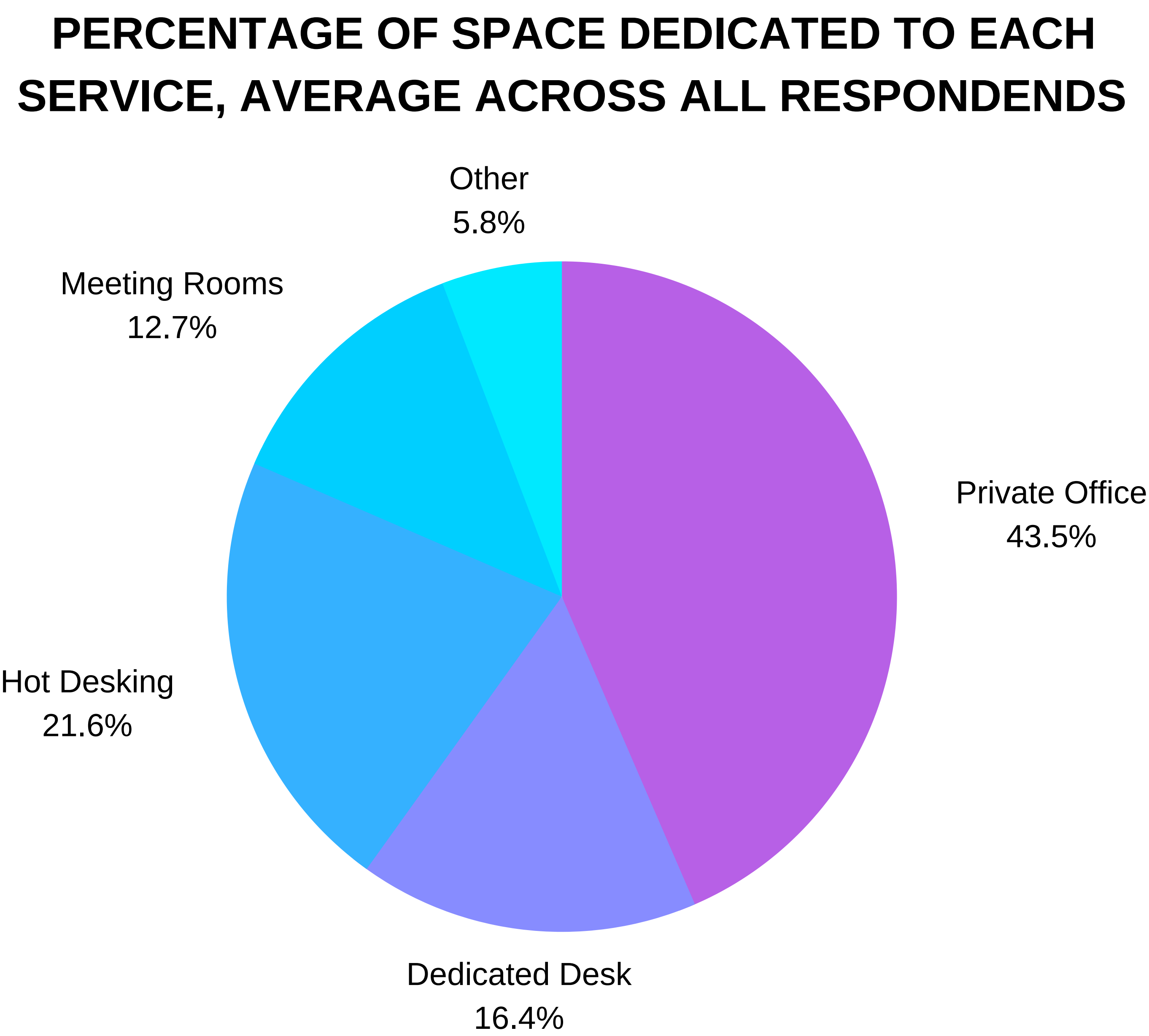
61% offer 1-person offices
80% offer 2-5 person offices
39% offer 6-10 person offices

Although private offices were by far the most common, the chart below breaks down a number of other offerings that our survey respondents reported.

PERCENTAGE OF SPACES THAT OFFER CERTAIN SIZES OF OFFICES

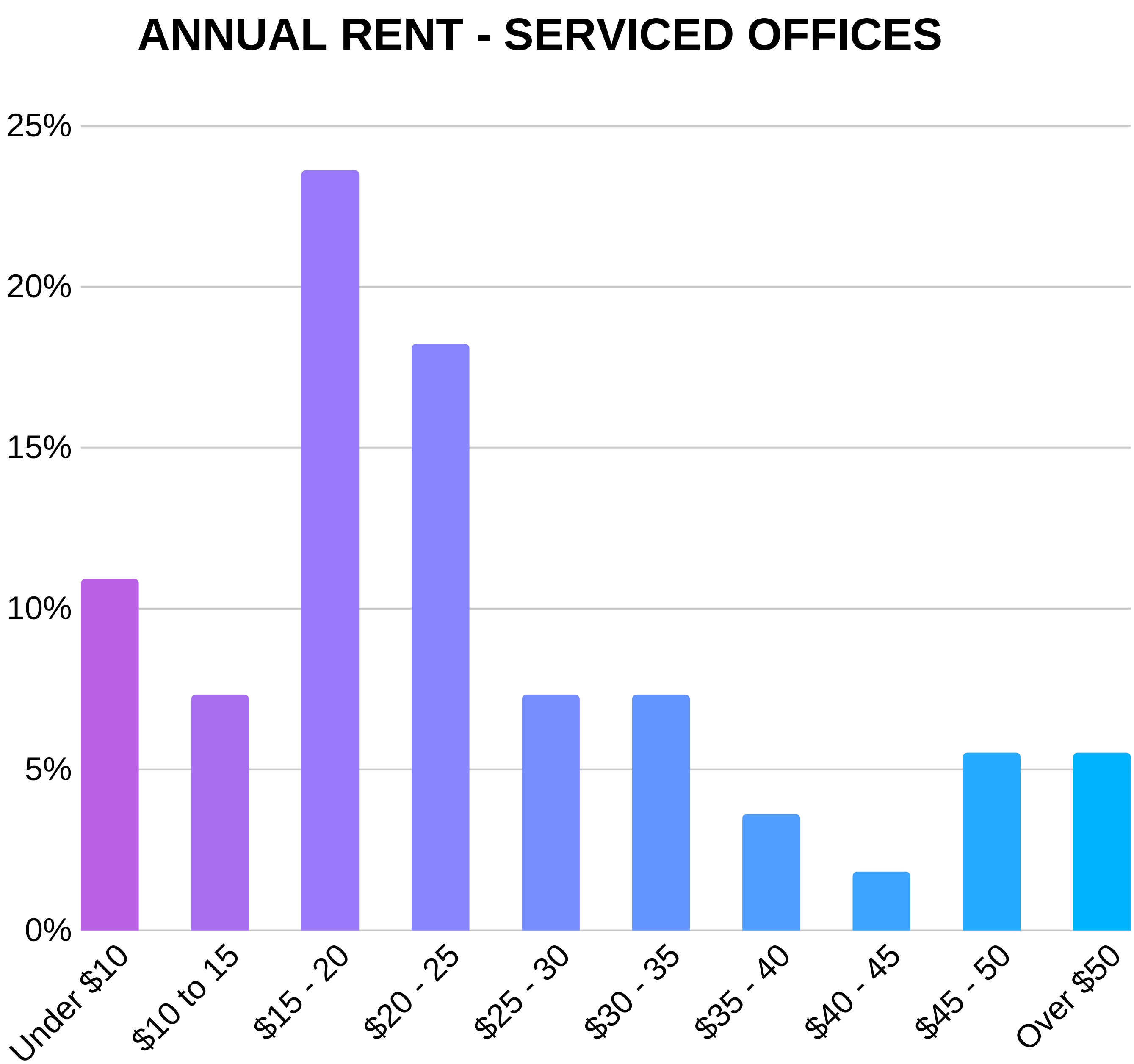


Products & Services Offered



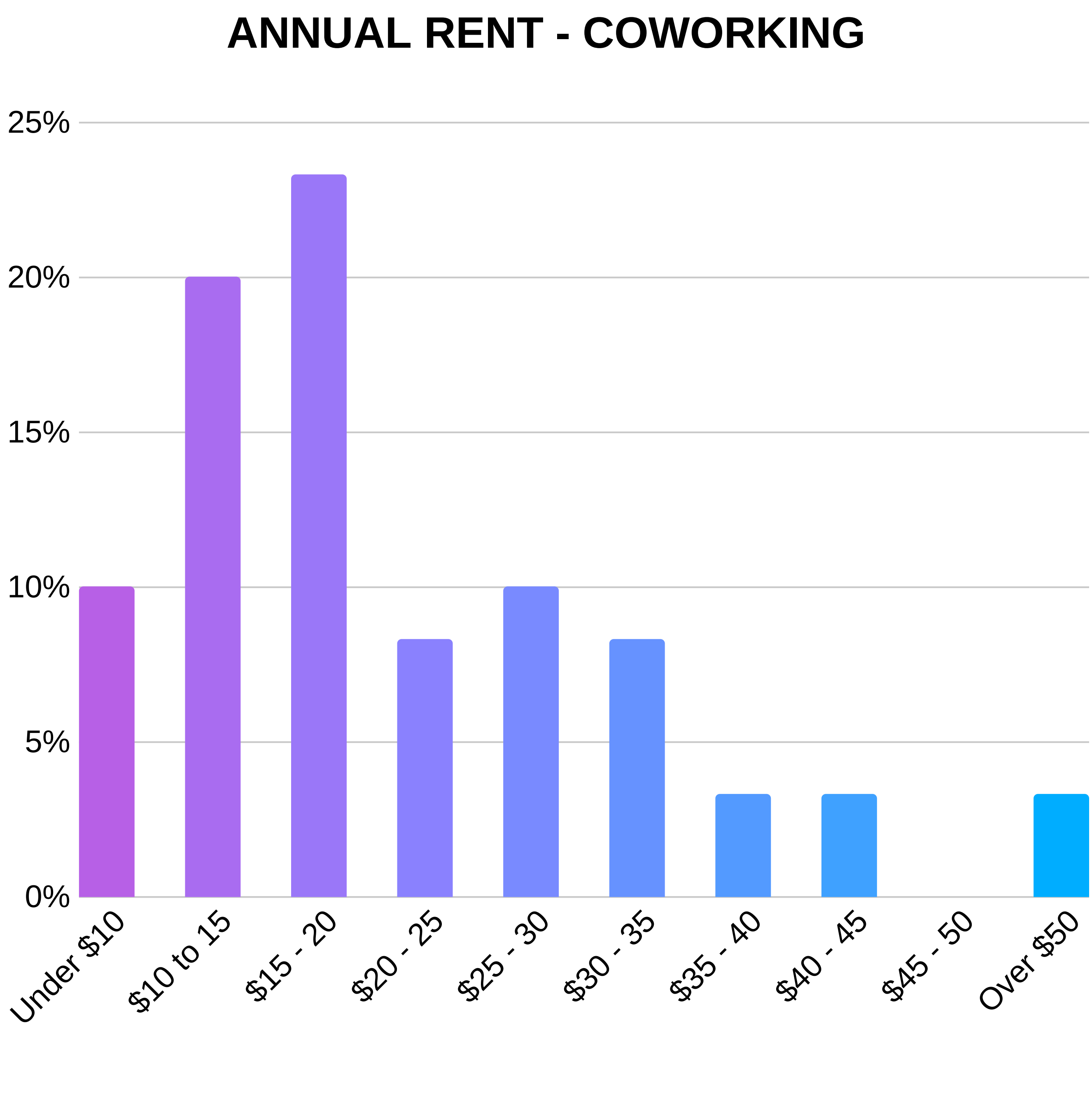
Annual Rent

The chart below details the annual rent for the office segment per square foot.



Annual Rent

The chart below details the annual rent for the office segment per square foot.



Tenure

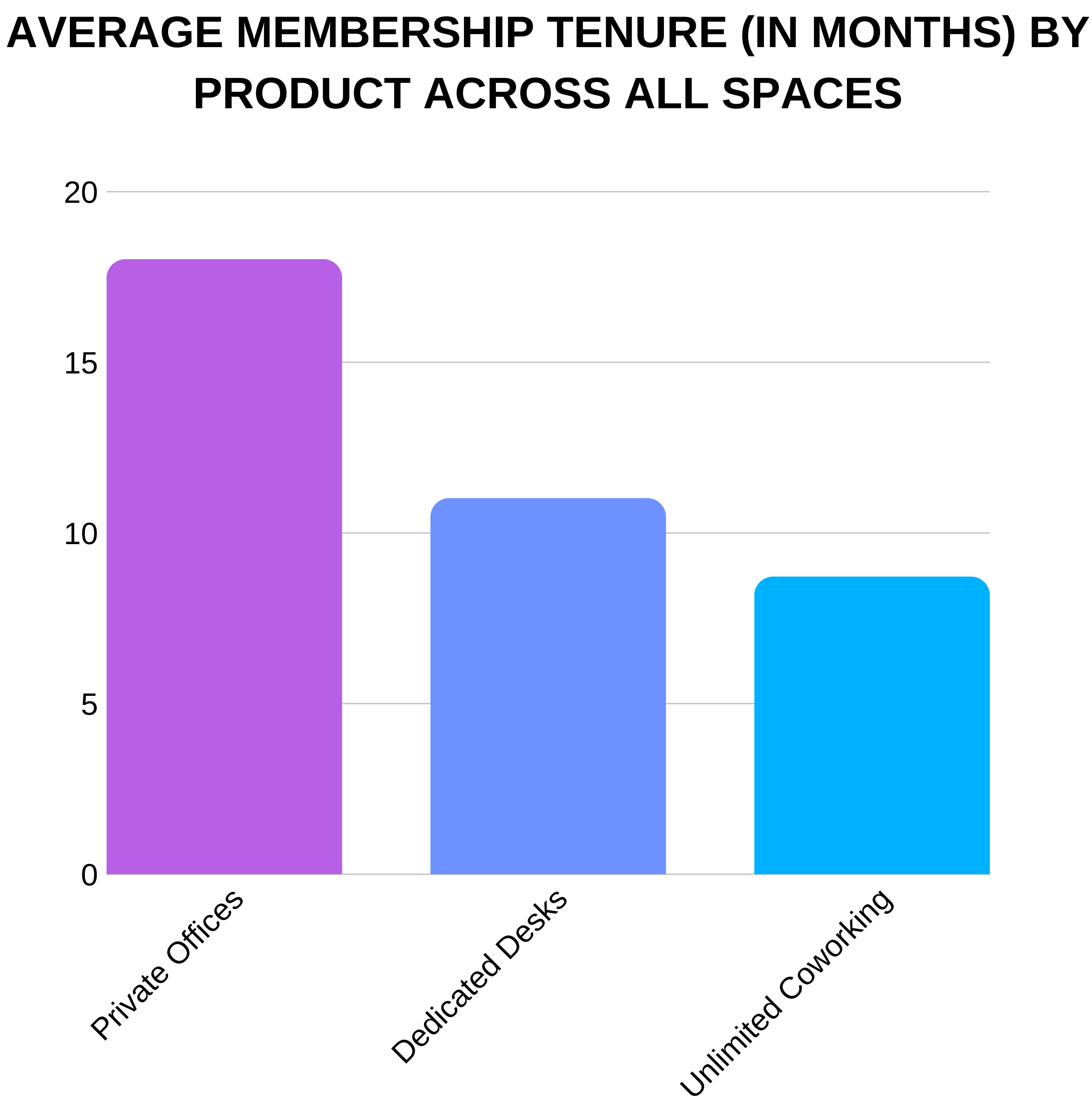
Respondents report shorter membership tenure across all categories with private office members staying for 18.7 months versus just over 21 months from the last survey in 2017.

The shortened membership tenure means that shared office spaces have to re-sell their spaces every year and a half or sooner for all categories.

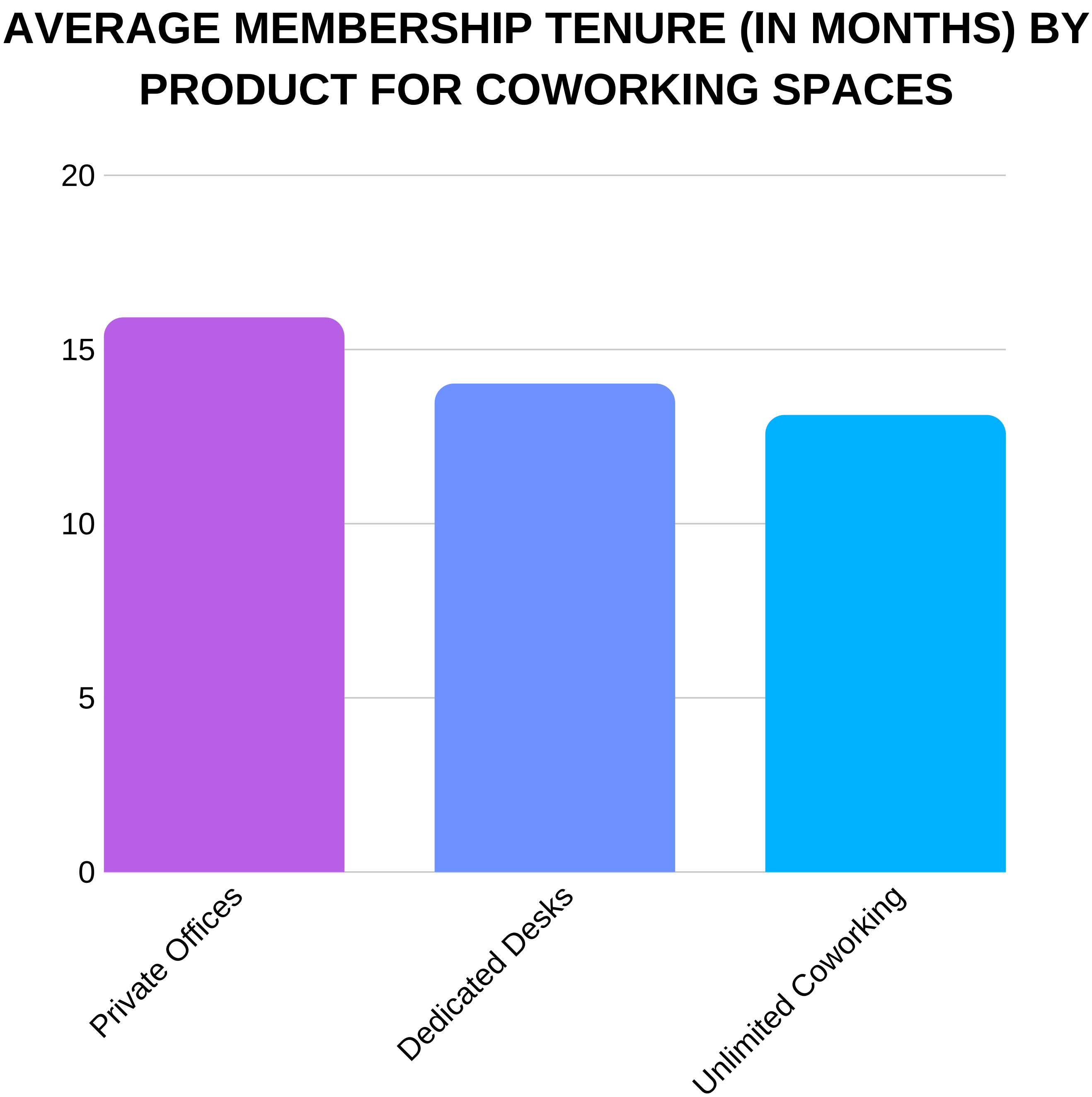
Coworking spaces report the shortest tenure for private offices with 15.9 months versus 22.8 months for Serviced Offices, but nearly twice the tenure for dedicated desks (14.1 months vs. 8.3) and two and a half times the tenure for unlimited hot desking memberships (17.6 months vs. 7.2).

The shorter tenure on non-private space for Serviced Offices may be due to these options being used as more of a feeder product for private offices.

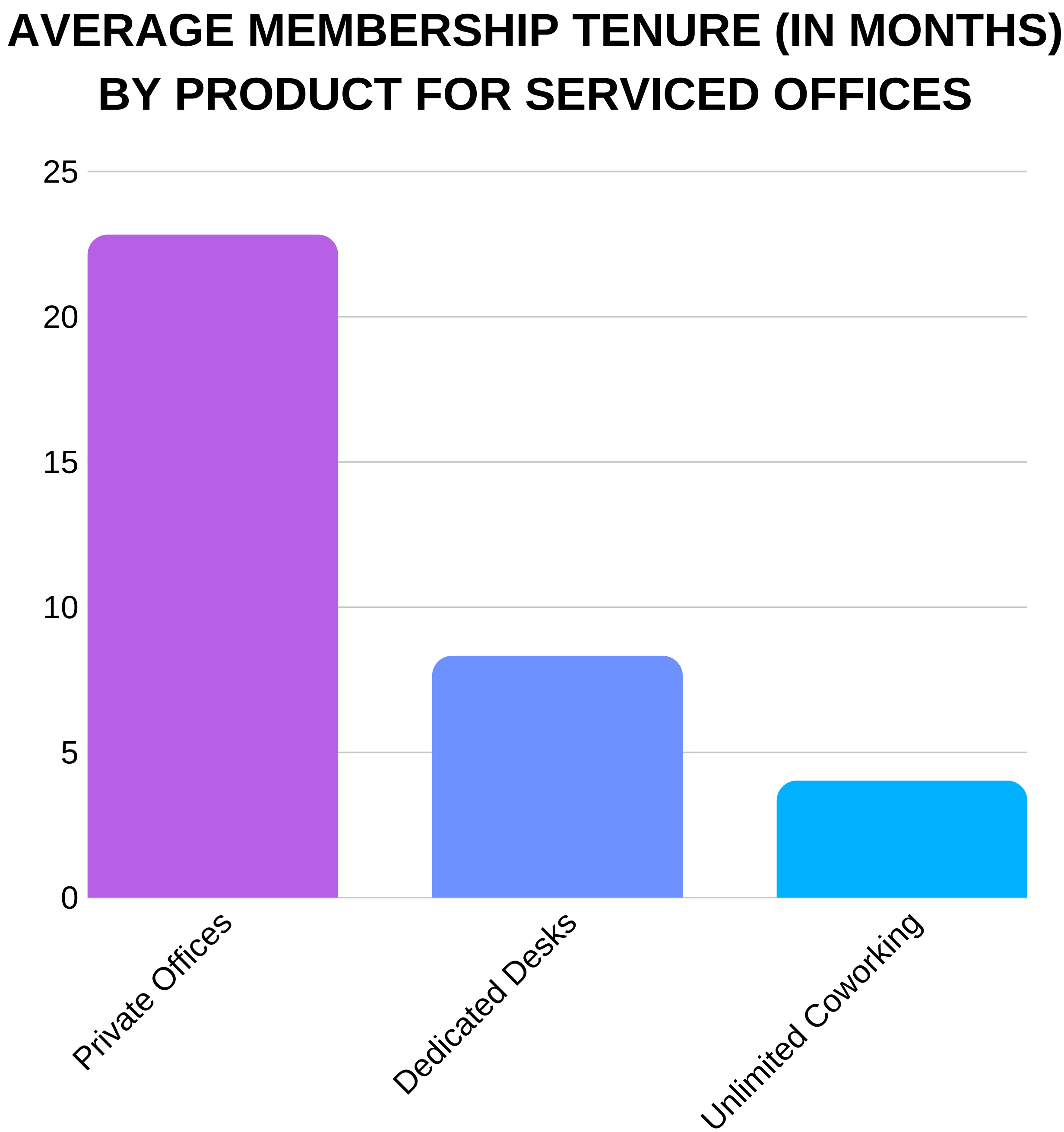
Average Tenure For ALL Spaces - By Product



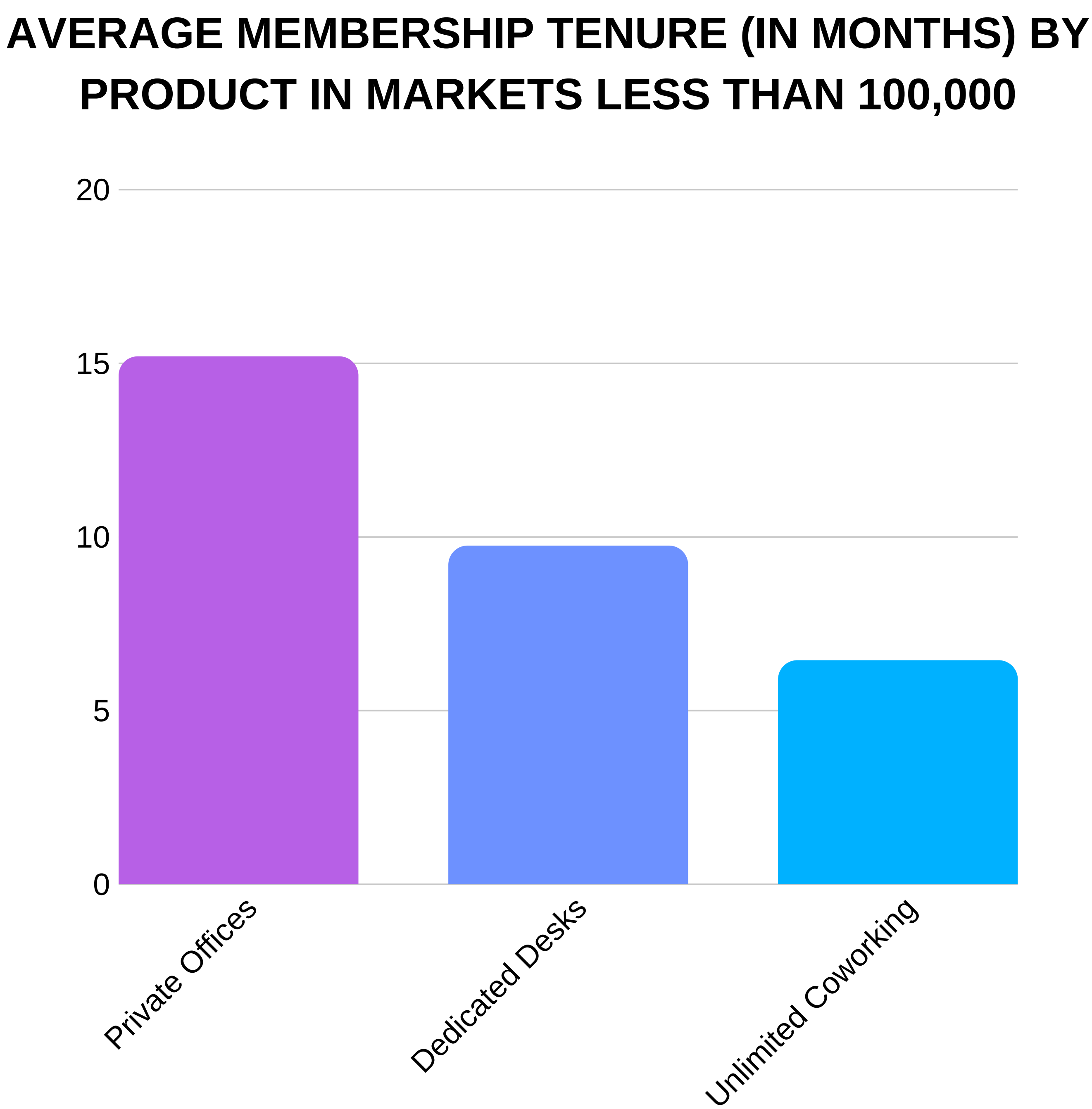
Average Tenure For Coworking Spaces - By Product



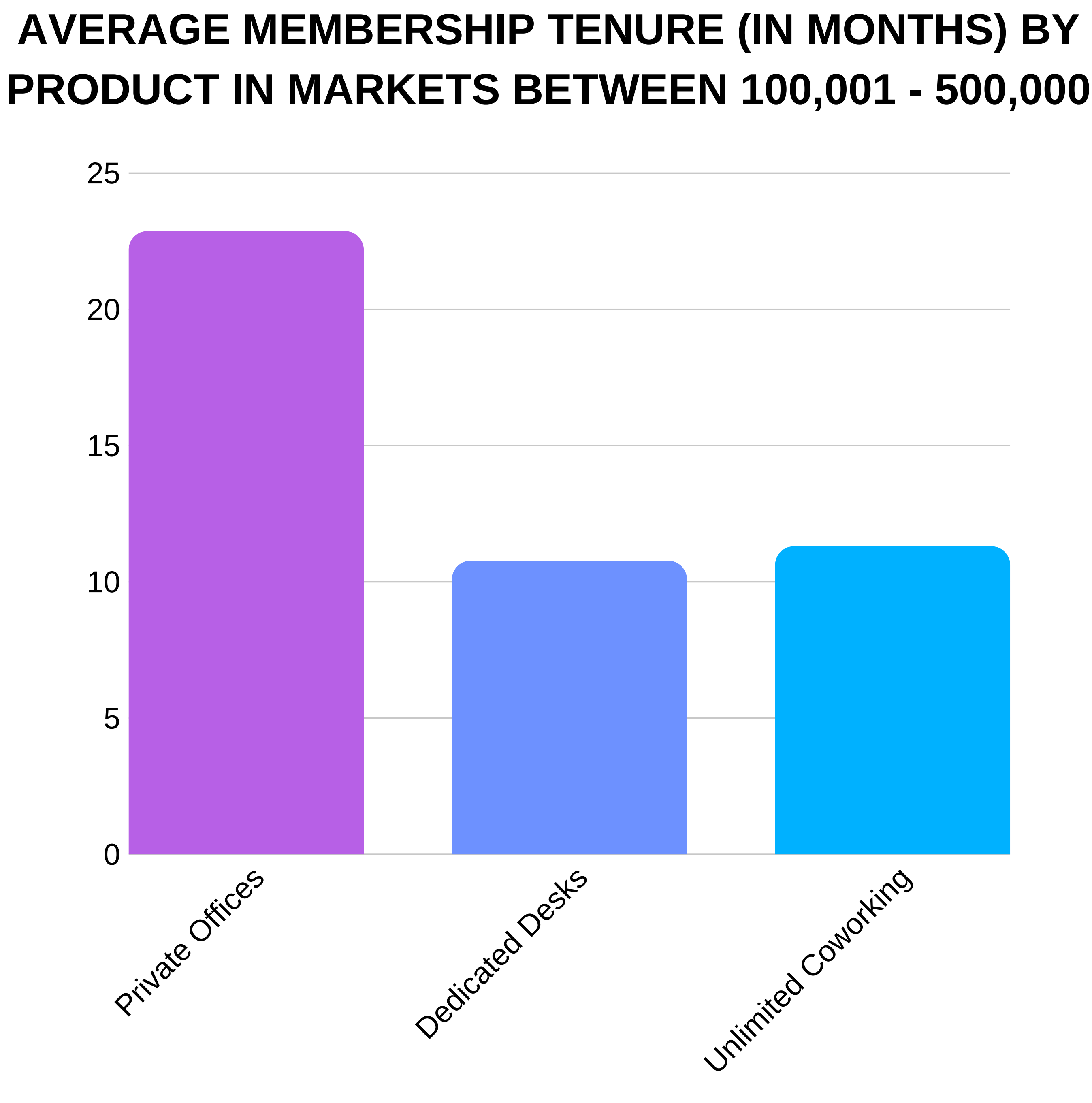
Average Tenure For Serviced Offices - By Product



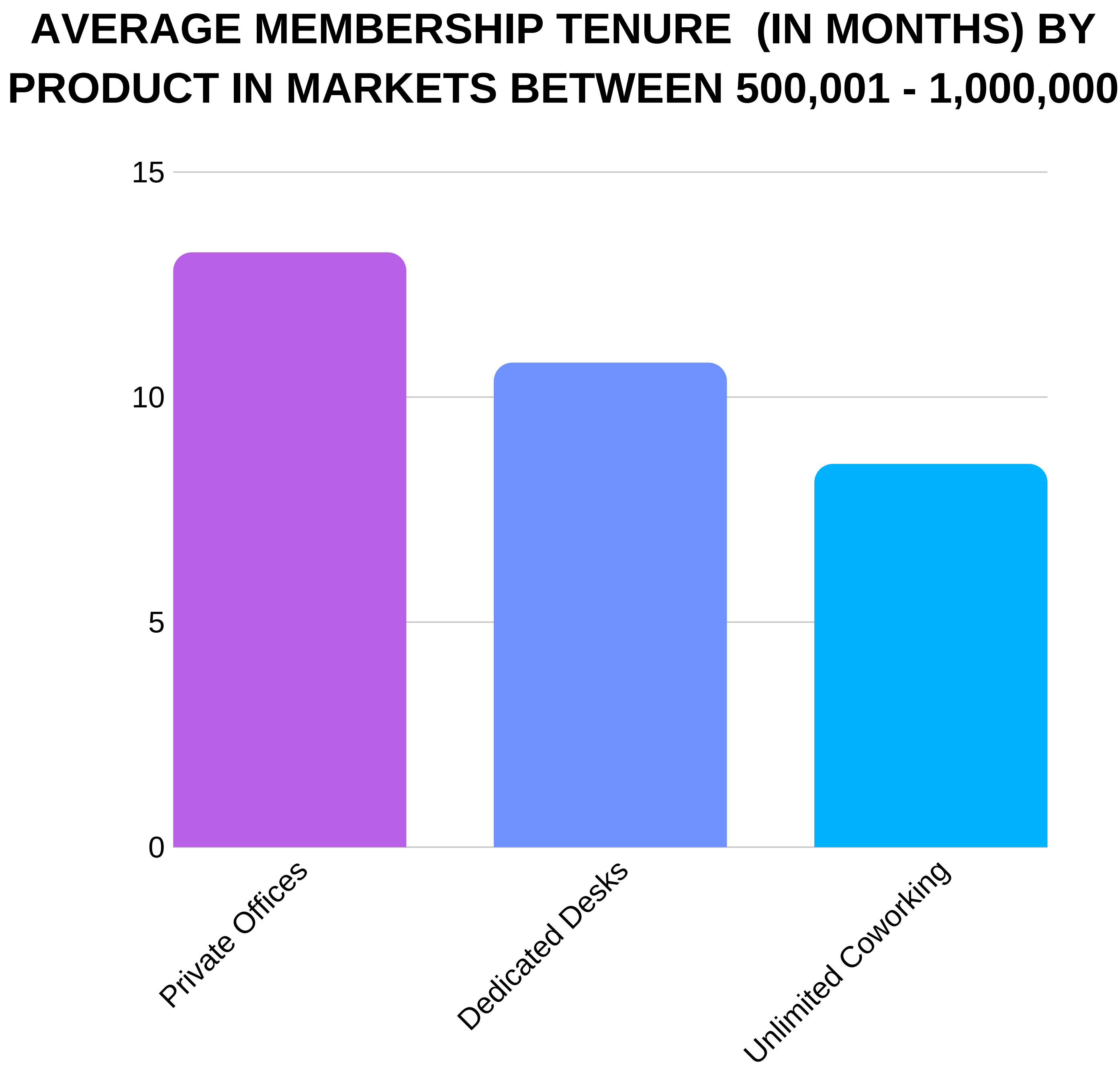
Tenure of Memberships by Market Size



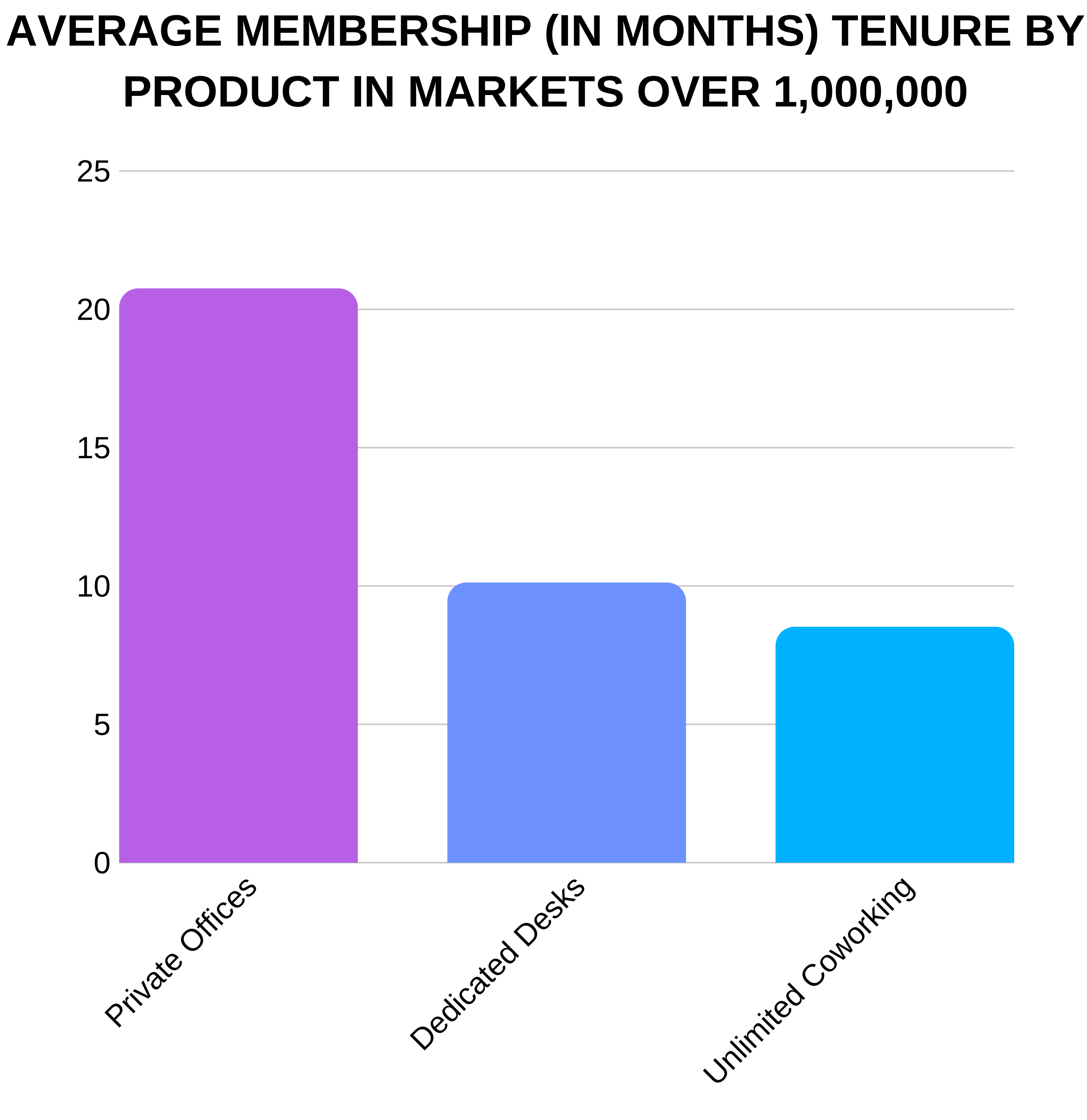
Tenure of Memberships by Market Size



Tenure of Memberships by Market Size



Tenure of Memberships by Market Size



Member-Facing Staff Salary - Coworking Spaces:

< $40k: 50.1%
> $50k: 28.1%

Staffing

67.5% of coworking spaces pay their member-facing staff less than $45k per year.

Serviced office spaces pay their member facing staff more with over 36.8% getting paid more than $50,000 a year compared to only 28.1% in coworking spaces.

One driver of this may be that serviced offices have been open the longest. Many may have staff with tenure and annual salary bumps that add up over time.

Coworking Spaces

- 50.1% are paid less than $40K
- 21.8% are paid between $40K and $50K
- 28.1% are paid more than $50K

Serviced Offices

- 39.6% are paid less than $40K
- 23.6% are paid between $40K and $50K
- 36.8% are paid more than $50K

This makes the staff more valuable and a willingness to pay them more. Another driver may be that some coworking space owners are still managing the space and paying themselves below market.

Staffing

What is a Community Manager?

The Community Manager role used to be largely focused on the day-to-day operational tasks that kept a space running smoothly. Although operations are certainly an important part of the Community Manager's role, these tasks often look like facilitation, thanks to shifts in technology that allow an increasing number of tasks to be self-serviced by the members. The Community Manager's role as facilitator has extended to the broader culture of the space as well; this role supports the environment on which your space's community develops and sustains itself. This new model requires flexibility in both space--the Community Manager is now often unchained from a front desk sort of space--and in the ways in which we should be conceptualizing and reconceptualizing of the role going forward.

Staffing

What's in a Name?

Coworking spaces and Serviced Office providers use different language and it's the most prominent in what they call their member-facing staff.

64.7% of Coworking spaces have 'Community Managers' while only 34.2% of Serviced Offices call their staff 'Community Managers.'

Serviced Offices also favor the term 'Center Manager' 29.3% of the time.

Variation in Role Title

Coworking spaces tend to lean to other titles that are community focused with terms like:

- Community Coordinator
- Community Lead
- Directory of Community

50.1% of spaces pay their member-facing staff less than $40K while 28.1% make more than $50k.

The Serviced Office portion of the survey uses traditional titles such as:

- Receptionist
- Customer Service Manager
- Operations Manager
- General Manager

Lead Generation Tactics

Annual Marketing Spend

How much a space should spend on marketing is a benchmark that is difficult to answer, but an important subject to explore. In the early days of coworking, operators claimed to do a little more than social media and hosted networking groups or educational events. As competition has increased, so has the noise and the overall difficulty of being found through a simple internet search. As you will see, spaces are trying a lot of different tactics with a varying degree of success with a few bright spots that are showing promise.

Lead Generation Tactics

Key takeaways from the date:

1. "Print media remains ineffective.

2. Client referrals are the most effective way to generate leads from Coworking (71% effective or extremely effective) and Serviced Office Centers (50%)

3. Unpaid social media is still effective, but less as it was before. Only 5% claim it is extremely effective vs. 18% in 2017.

4. Paid digital media increased their status with 45% vs. 36% in 2017 rating it as very effective to extremely effective.

5. Events are a polarizing tactic that works for some and is ineffective for others. Events appear to be able to be an effective form of marketing for spaces that have a consistent and high volume schedule.

6. Coworking and Serviced Offices take different approaches to marketing. Coworking spaces prefer grass-roots marketing that relies on direct relationships with the customer while Serviced Office spaces prefer partnerships with brokers that the relationships with potential customers.

Lead Generation Effectiveness by Tactic

Spend by Space Type

Serviced Offices continue to outspend coworking spaces on marketing over the course of the year. 43.8% of Serviced Offices spend more than $7,500 on marketing while only 27% of coworking spaces follow suit. However, coworking spaces are showing signs that they are starting to increase marketing budgets with 21.1% spending $5,001 to $7,500 on marketing versus 3.1% of Serviced Offices. Just over 50% of both segments spend less than $5,000 on marketing in a year.

The Most Effective Marketing Tactics According to Coworking Spaces:

- Host Events (42% effective or extremely effective)
- Member Referrals (71.2% effective or extremely effective)
- Paid digital media (40.4% effective or extremely effective)
- Social Media, upaid (37.2% effective or extremely effective)
- Business association/community networking (36.5% effective or extremely effective)

The Most Effective Marketing Tactics According to Serviced Offices:

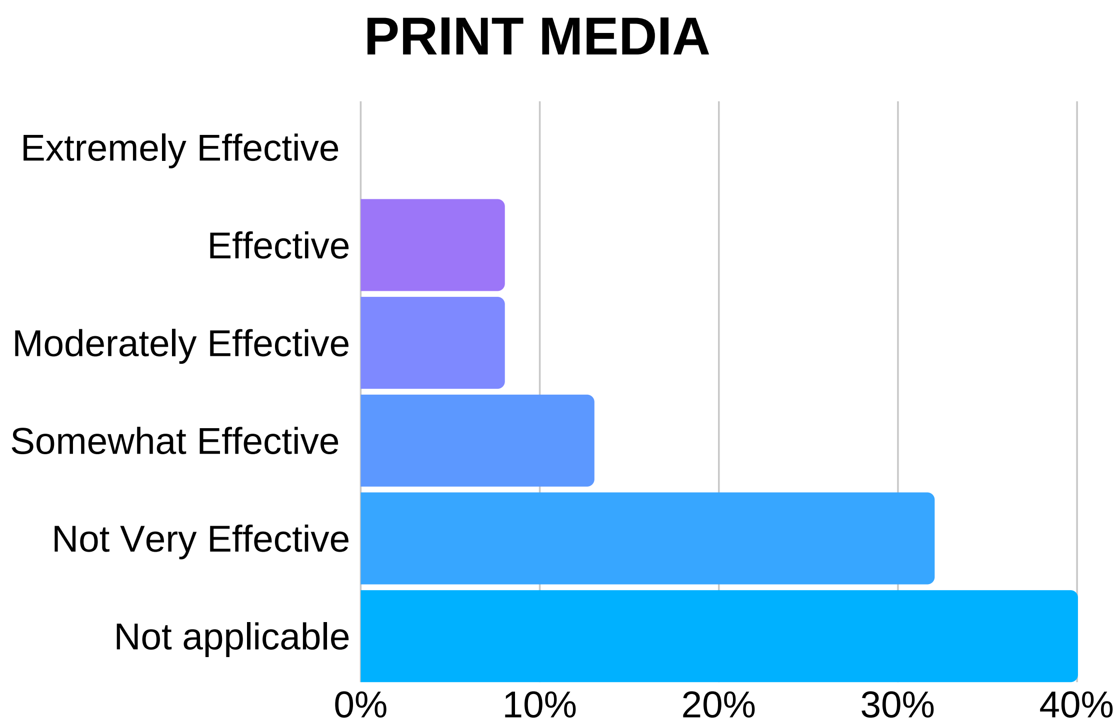
- Social Media, unpaid (31.6% effective or extremely effective)
- Paid digital media (35% effective or extremely effective)
- Member Referrals (50% effective or extremely effective)
- Lead Partners (25.8% effective or extremely effective)
- Online Platforms (28.3% effective or extremely effective)

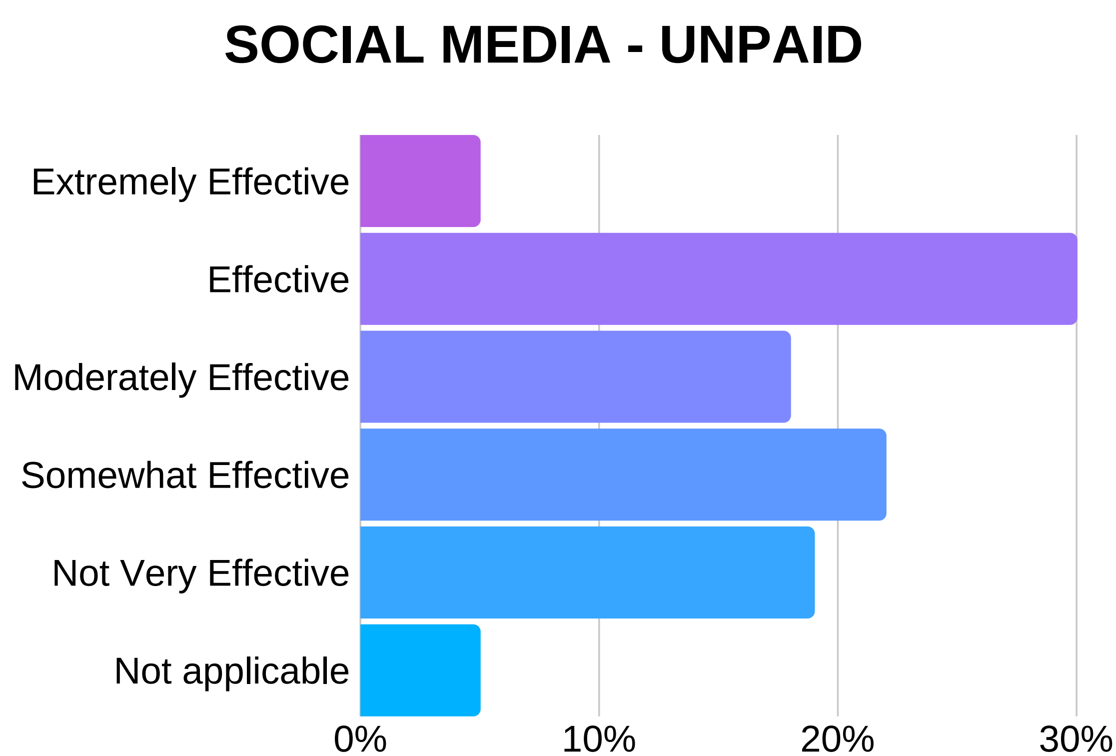
The two segments lean on different marketing channels to drive business. 20% of Serviced Offices view online web brokers as extremely effective or effective vs. 0% for Coworking spaces. The same trend continues for traditional local and national commercial real estate brokers and online lead referral partners where Serviced Offices find a lot more value.

Coworking spaces prefer building awareness through direct relationships that rely on hosting events or getting to know people at outside events in the community.

Both groups find referrals to be the most effective form of marketing, with digital paid marketing and unpaid social media to be another top contender for both groups.

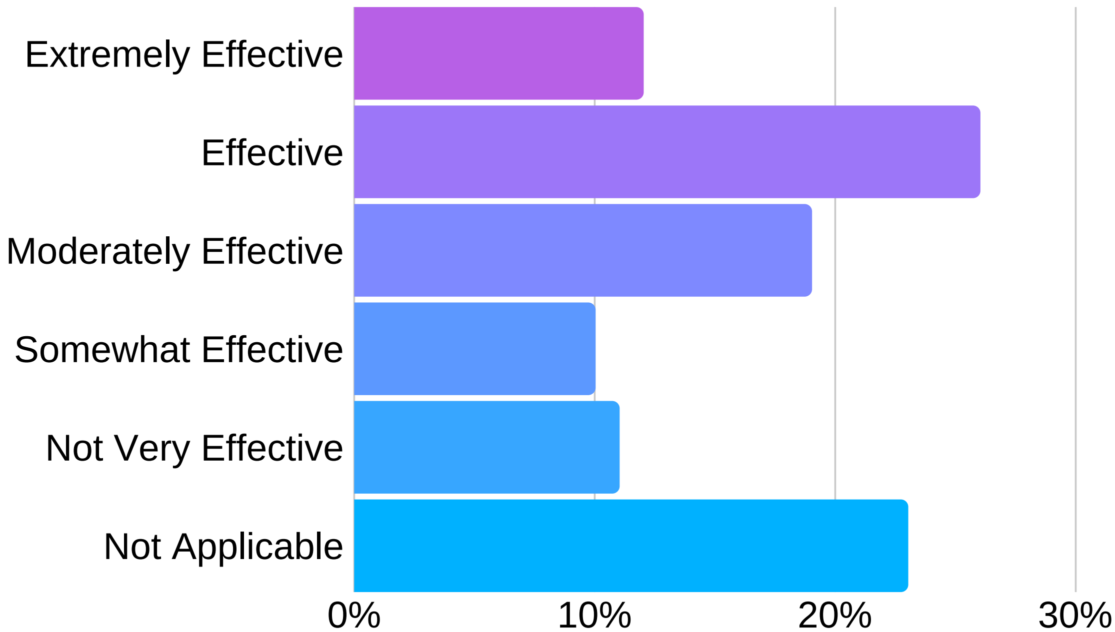
Lead Generation Effectiveness by Tactic



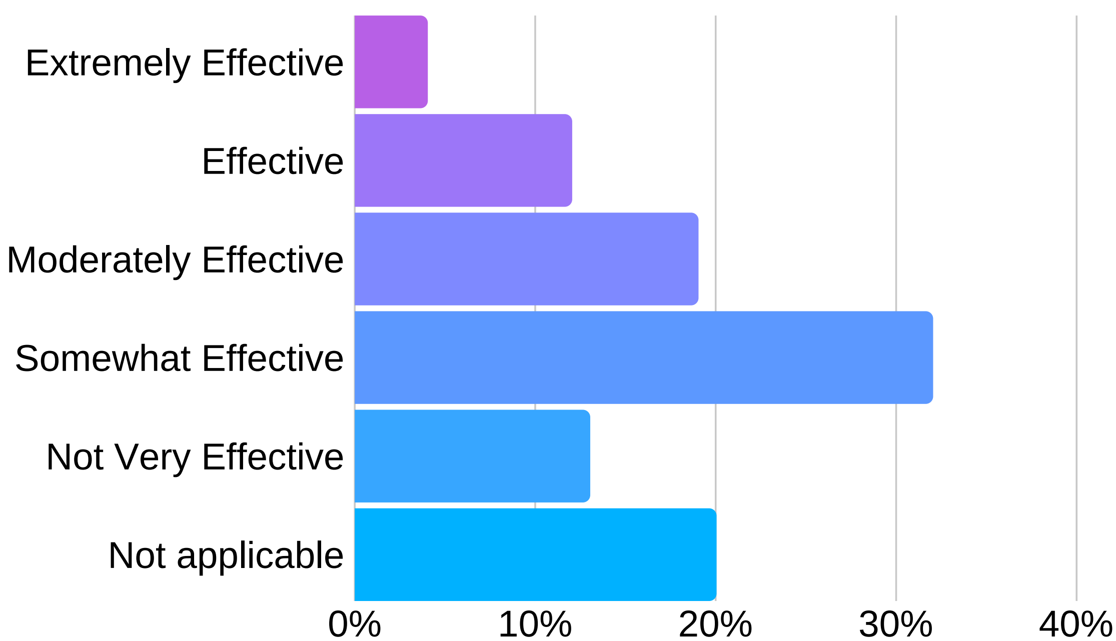


Lead Generation Effectiveness by Tactic

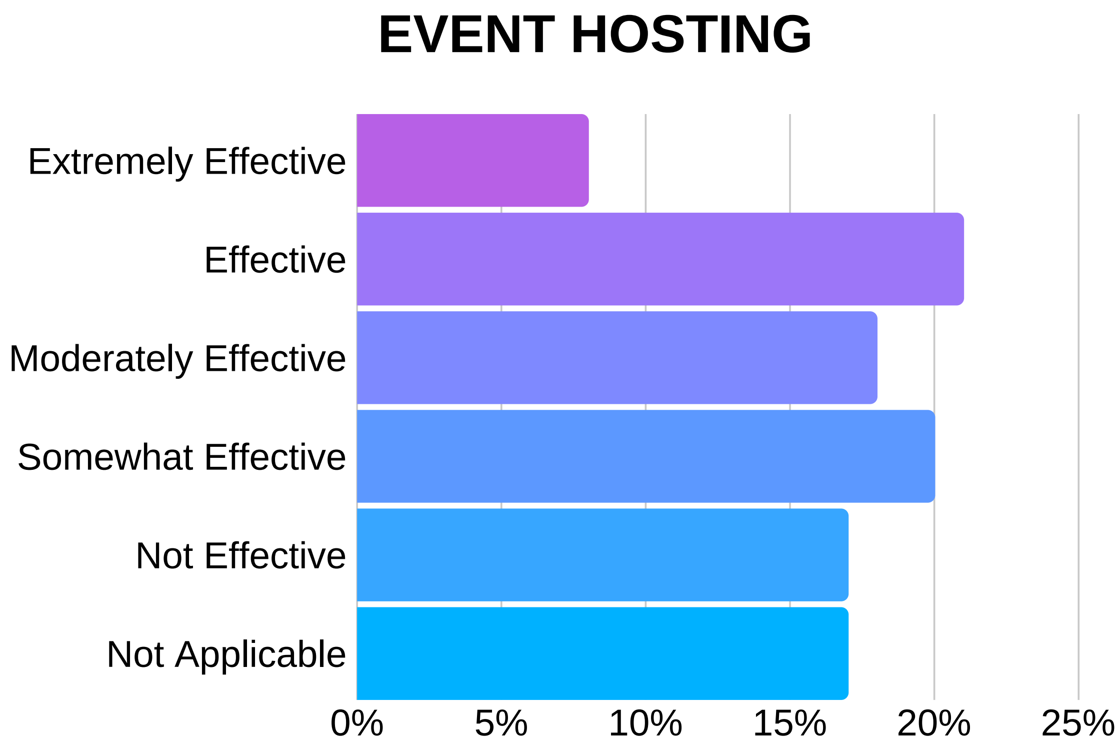
PAID DIGITAL MEDIA

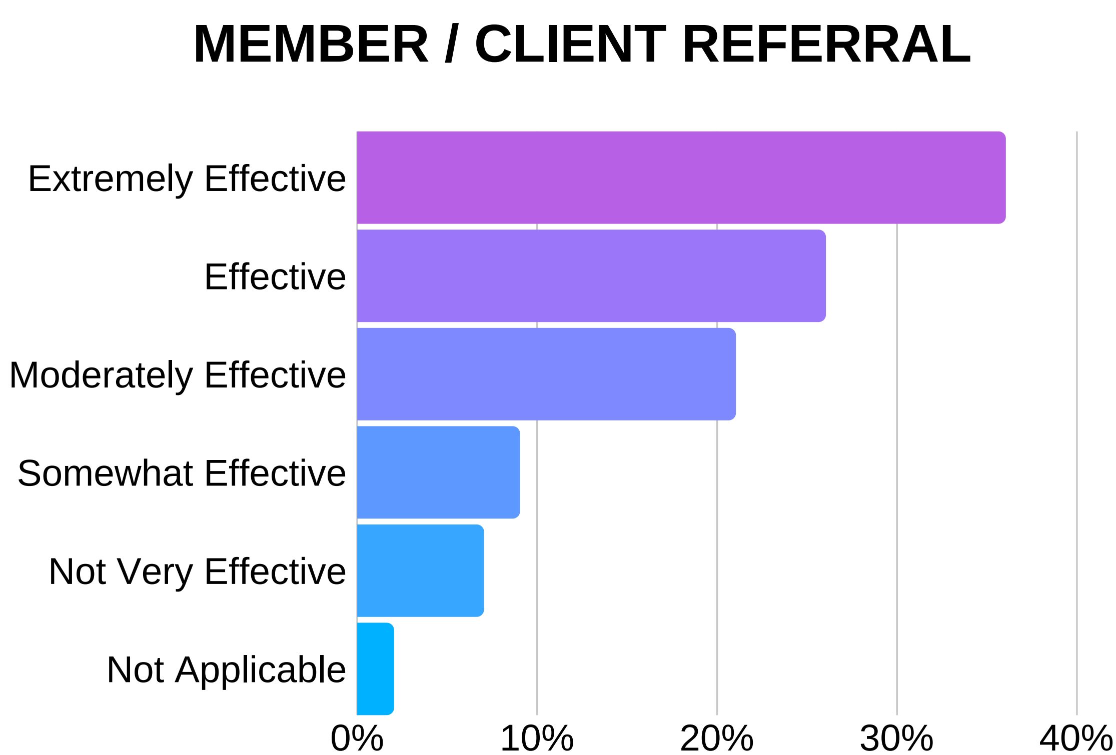


EMAIL MARKETING



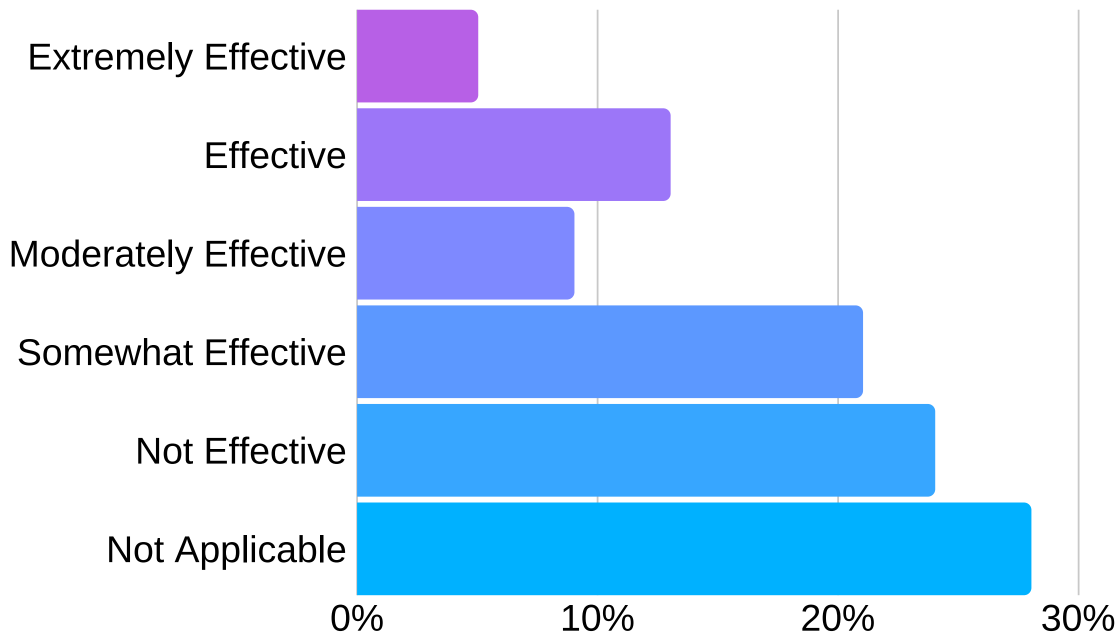
Lead Generation Effectiveness by Tactic



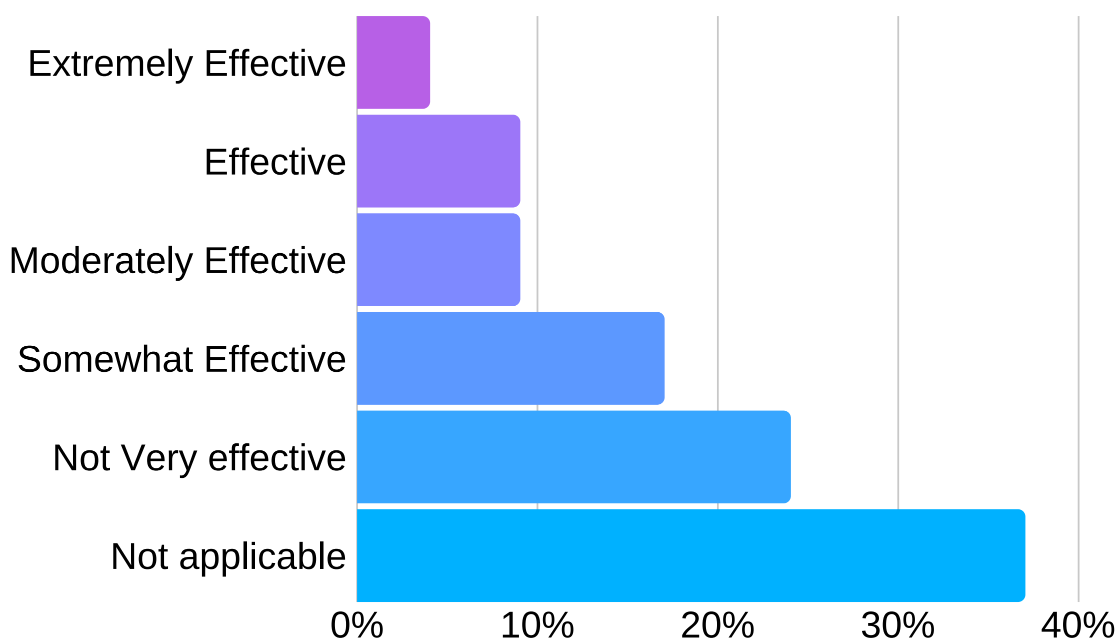


Lead Generation Effectiveness by Tactic

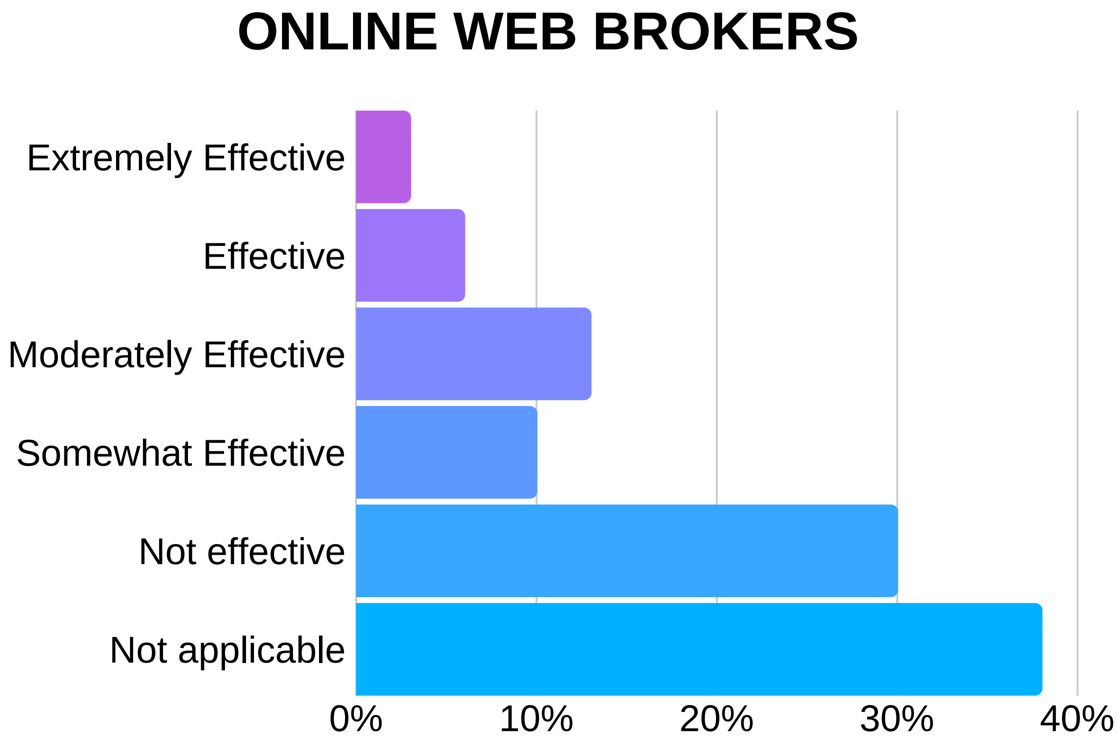
ONLINE PLATFORMS

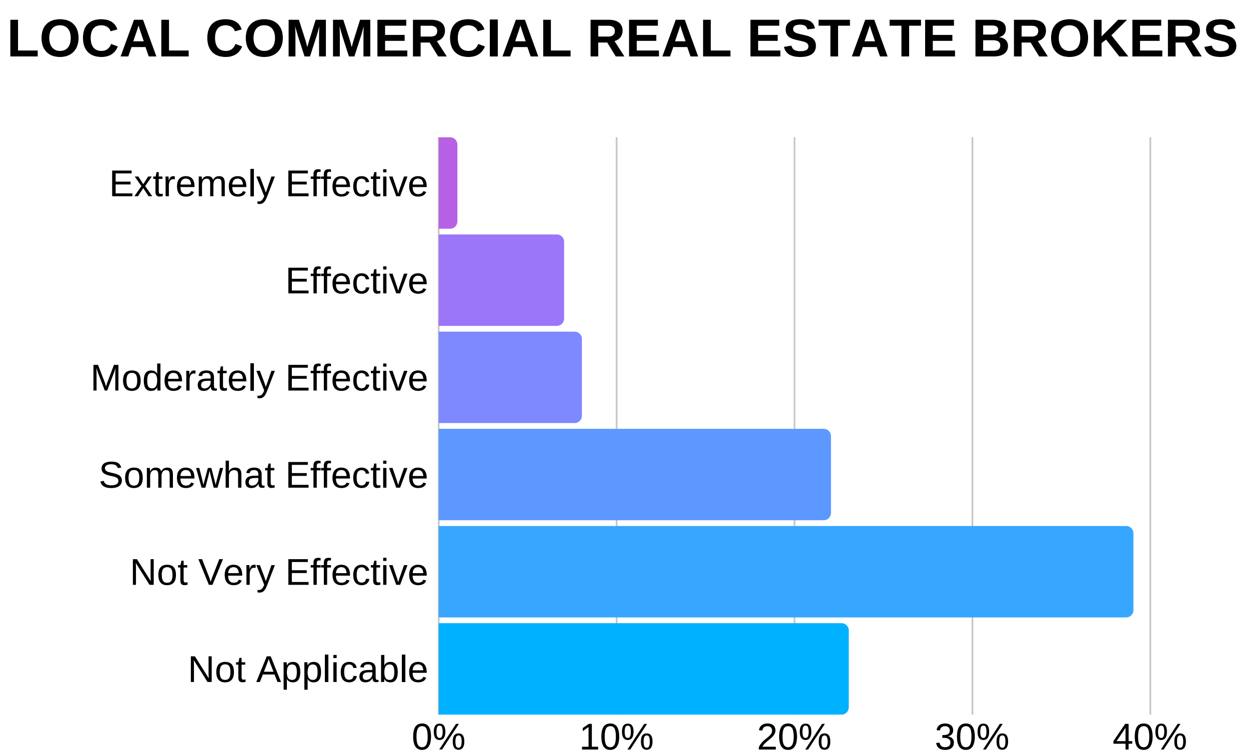


LEAD GEN PARTNERS PARTNERS



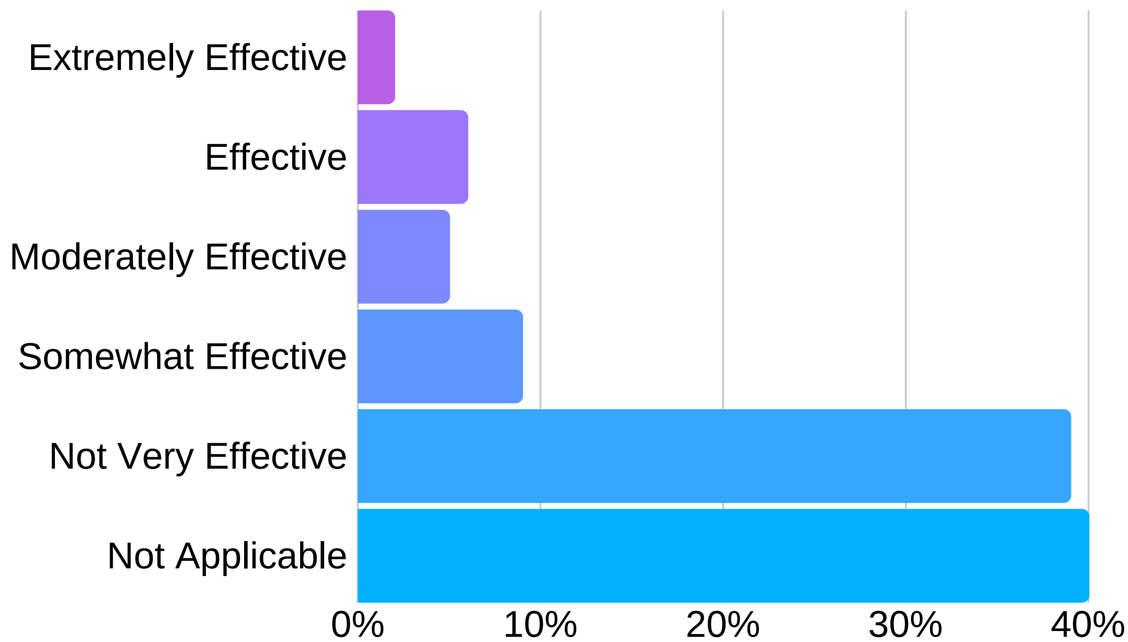
Lead Generation Effectiveness by Tactic



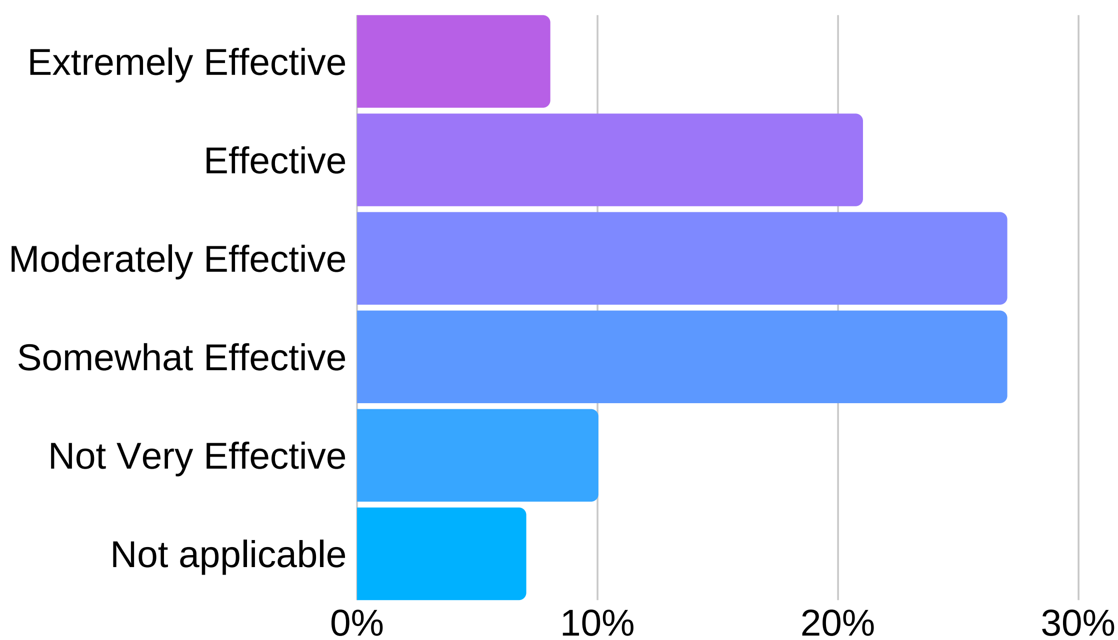


Lead Generation Effectiveness by Tactic

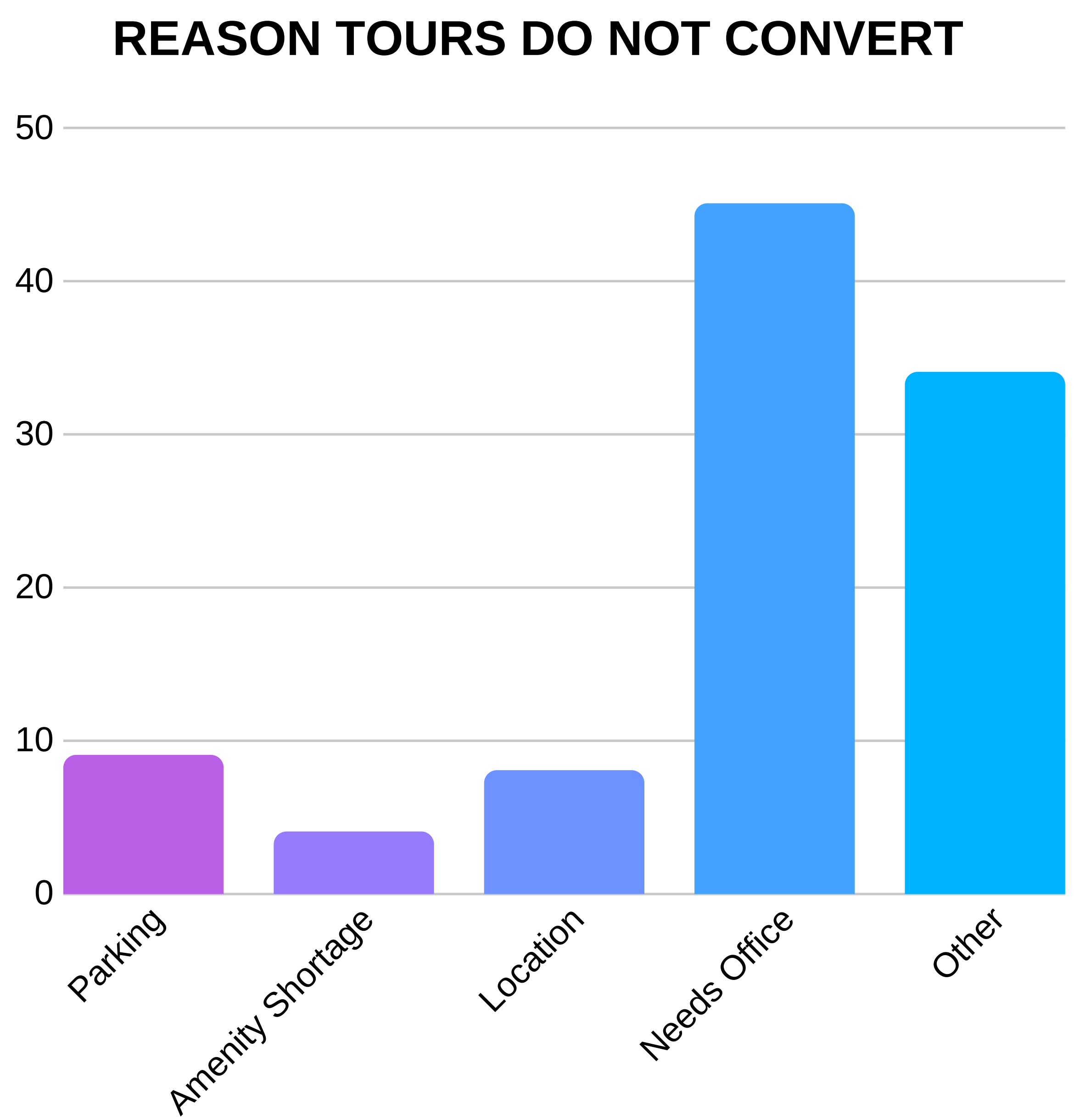
NATIONAL COMMERCIAL REAL ESTATE BROKERS



BUSINESS ASSOCIATION/COMMUNITY NETWORKING



What is the primary reason a potential member who tours does NOT join?



APPENDIX

Respondent Segment Overview

Respondent Segments

This year, we segmented responses by: coworking, serviced offices, flexible office space offered by private business, flexible office space offered directly by the landlord, incubator and "other." 42.9% of respondents were serviced offices, 47.4% coworking spaces. 10% of respondents were from private businesses or landlords or spaces that identified as incubators with coworking.

Due to low responses of industries outside Coworking and Serviced Offices, they are not in this year’s report.

Coworking Space

We asked operators "How do you describe the workspace at this location?" You'll see in the report that the classification of the space has nothing to do with the layout. 89% of coworking spaces offer private offices. Coworking does not equal an open seating plan, but more of a culture of operating and branding.

Note: For this reason we will not continue to break out these two categories in future surveys.

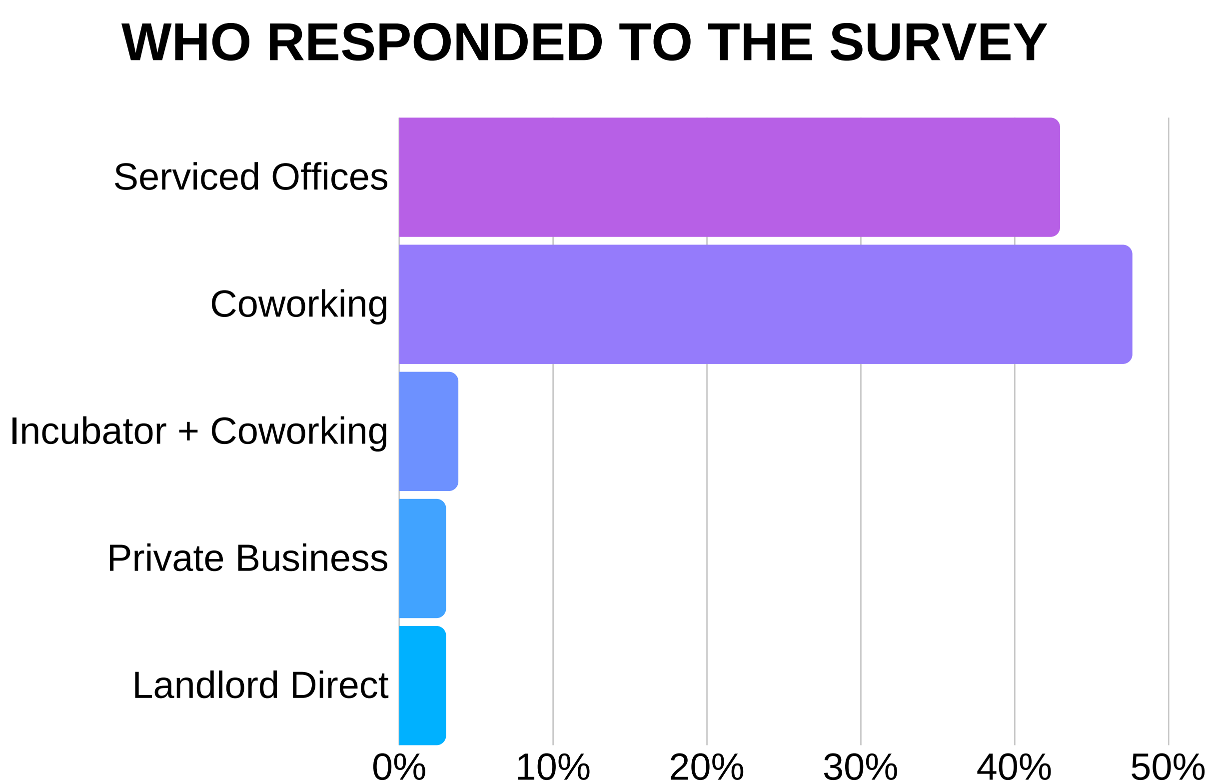
Serviced Offices

100% of serviced office respondents offer private offices and 95.5% offer virtual mail packages. Over 60% of them offer dedicated desks and 70% offer coworking memberships highlighting the continued blurring of theed lines between coworking and serviced offices.

Respondent Overview

This year coworking spaces jumped from 31% to 47.4% of respondents, representing the largest segment within GWA. This jump highlights the rapid change in the shared workspace industry towards identifying as coworking. The service office sector dropped slightly from 45% of respondents in 2017 to 42.9% this year. The rest of the respondents were evenly mixed with Landlord, Private Business, and Incubator + Coworking with 3%.

Due to the low responses from categories other than Coworking and Serviced Offices, we are only going to focus on these two main categories.

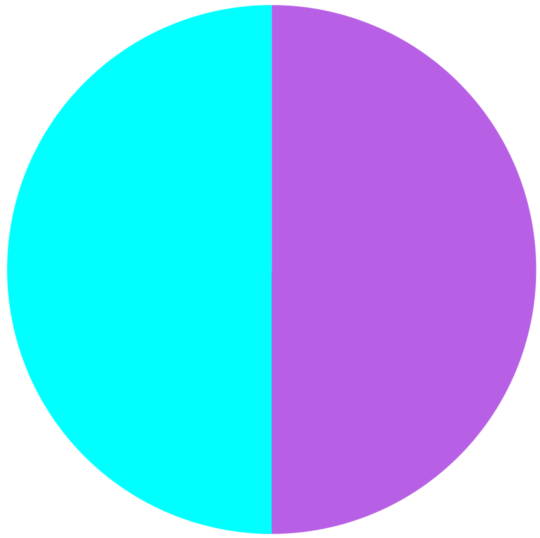


Respondent Overview

Members vs. Non-Members:

50% of respondents are GWA members; 50% are non-members.

Non-Members
50%



GWA Members
50%

Market Size

This year 30% of the respondents were from large cities with over 1 million. The second-largest segment was from their smaller companion of cities from 100,001 to 499,999. Small cities are also well represented in the survey with 26% of respondents from cities less than 100,000 people.

1 million +
29.7%

Less than 100,000
25.7%

500,001 - 999,999
14.9%

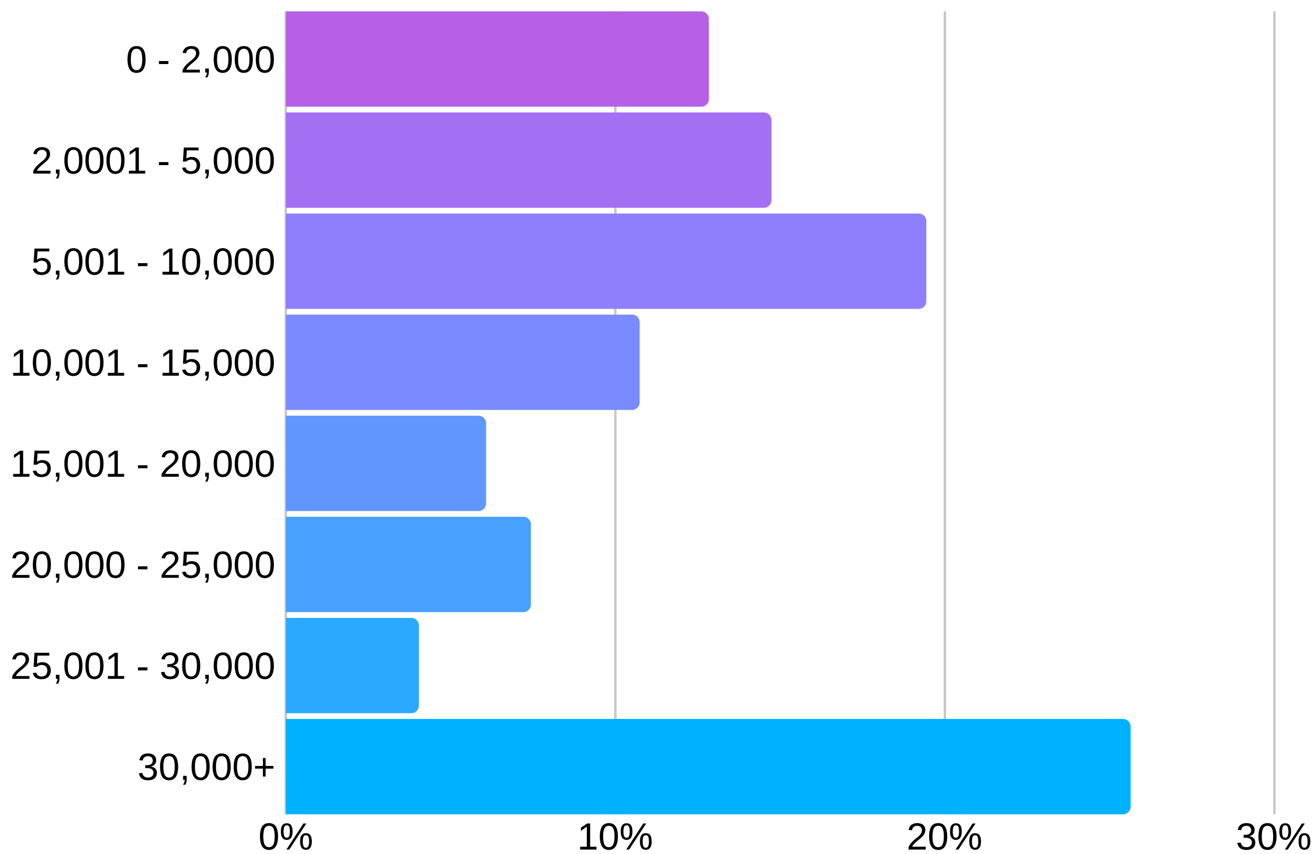
100,000 - 499,999
29.7%

Respondent Overview

Square Footage of Respondents

We asked each respondent to answer the survey based on one specific location (each operator could submit data on multiple locations).

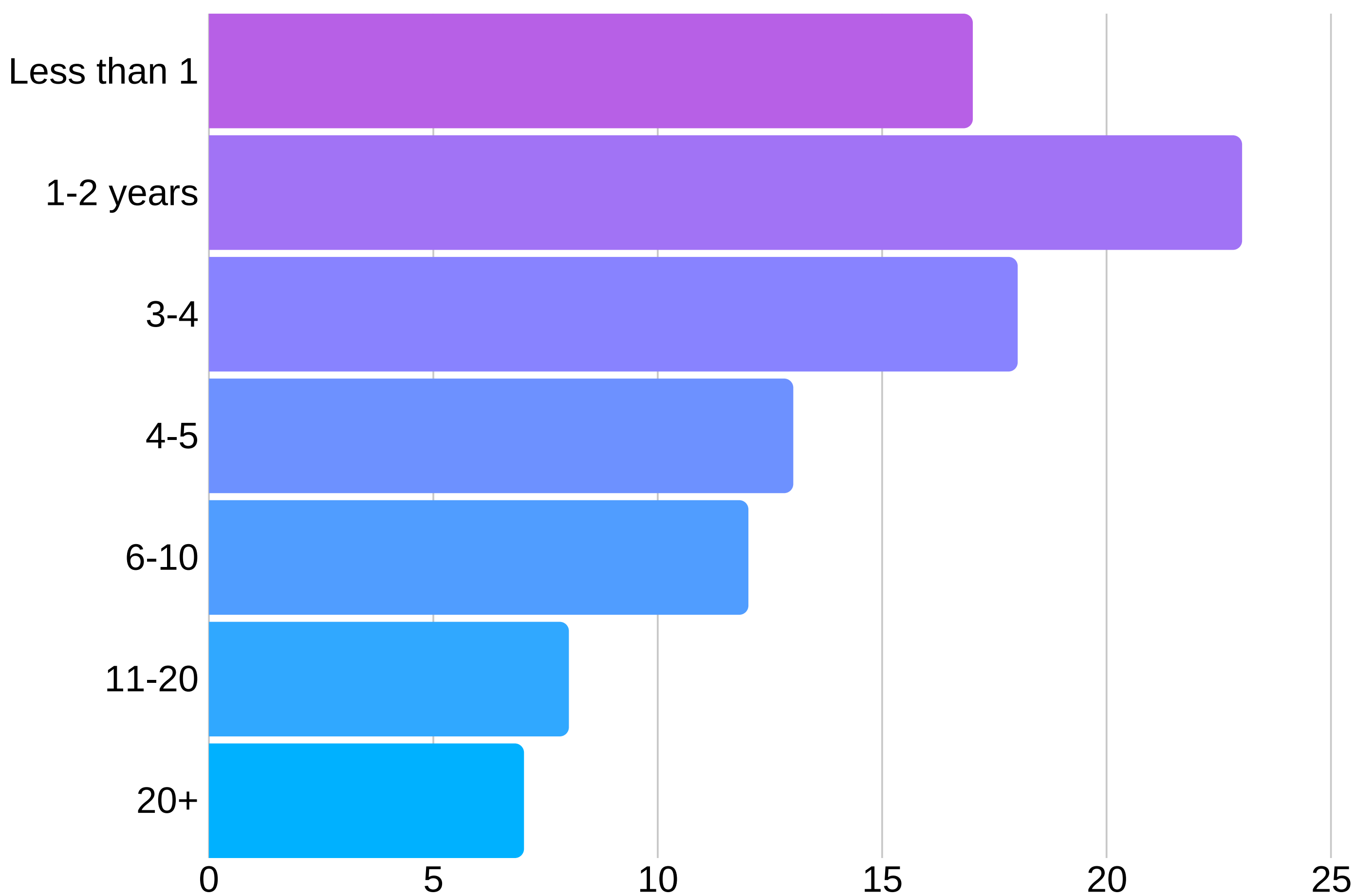
The sample shows the divergence happening between spaces less than 10,000 square feet equaling 46.9% of spaces, and spaces larger than 30,000 square feet equaling 25.6% of spaces.



Respondent Overview

Years in Business - Overall

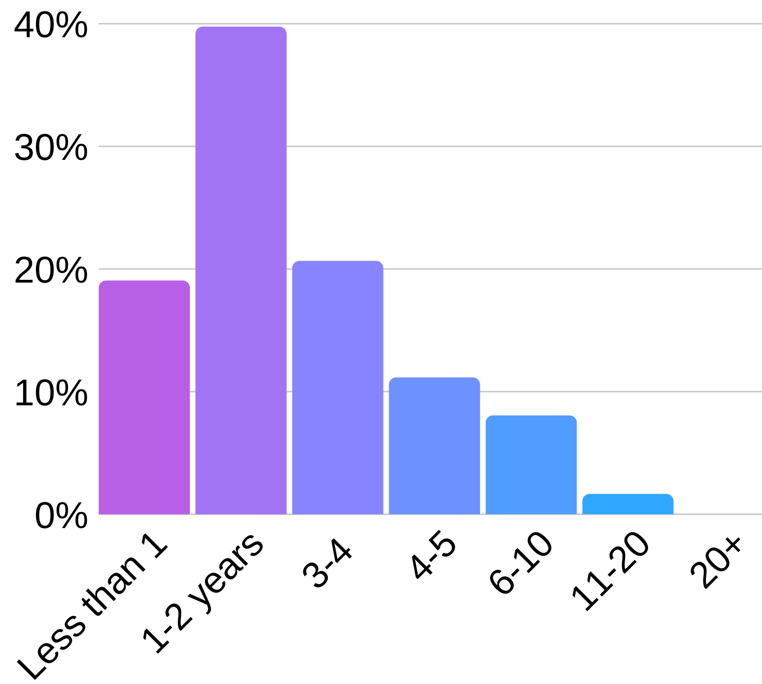
71% of respondents have been open for less than 5 years, versus 55% in the last survey. This shows a youthfulness in the industry and new growth as more spaces open, compared to the 2017 survey. Only 29% versus 45% in 2017 have been open for more than 5 years, and only 15% versus 27% have been open for more than 10 years.



Respondent Overview

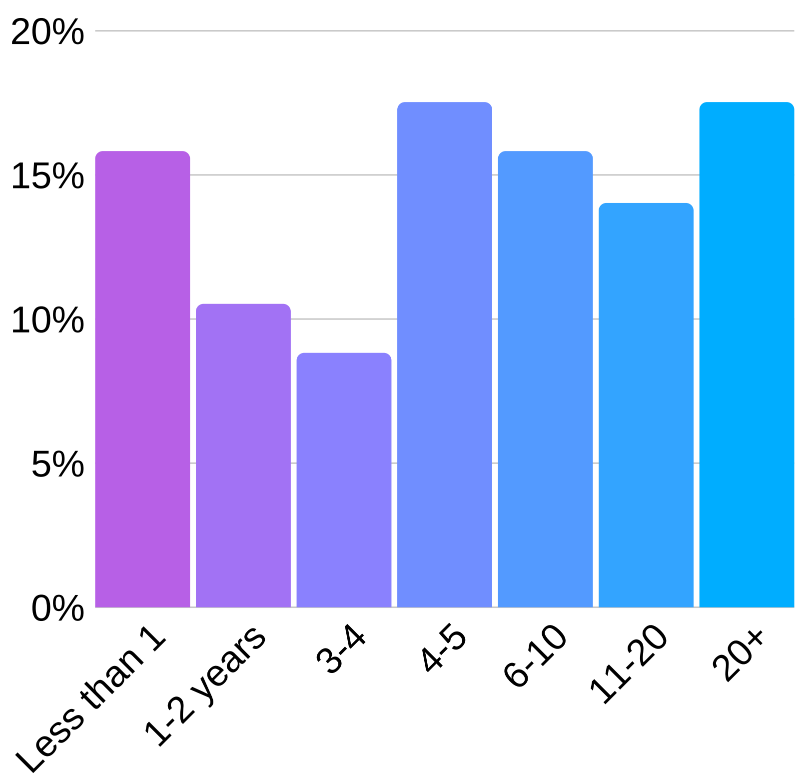
Years in Business - Coworking

19% of coworking respondents have been open for less than a year. 71.4% of coworking respondents have been open for 2 to 5 years.



Years in Business - Serviced Office

Serviced Offices is a legacy segment for the shared office industry with 36.8% of Serviced Offices being open for 2 to 5 years and a third of the segment being over 10 years old.

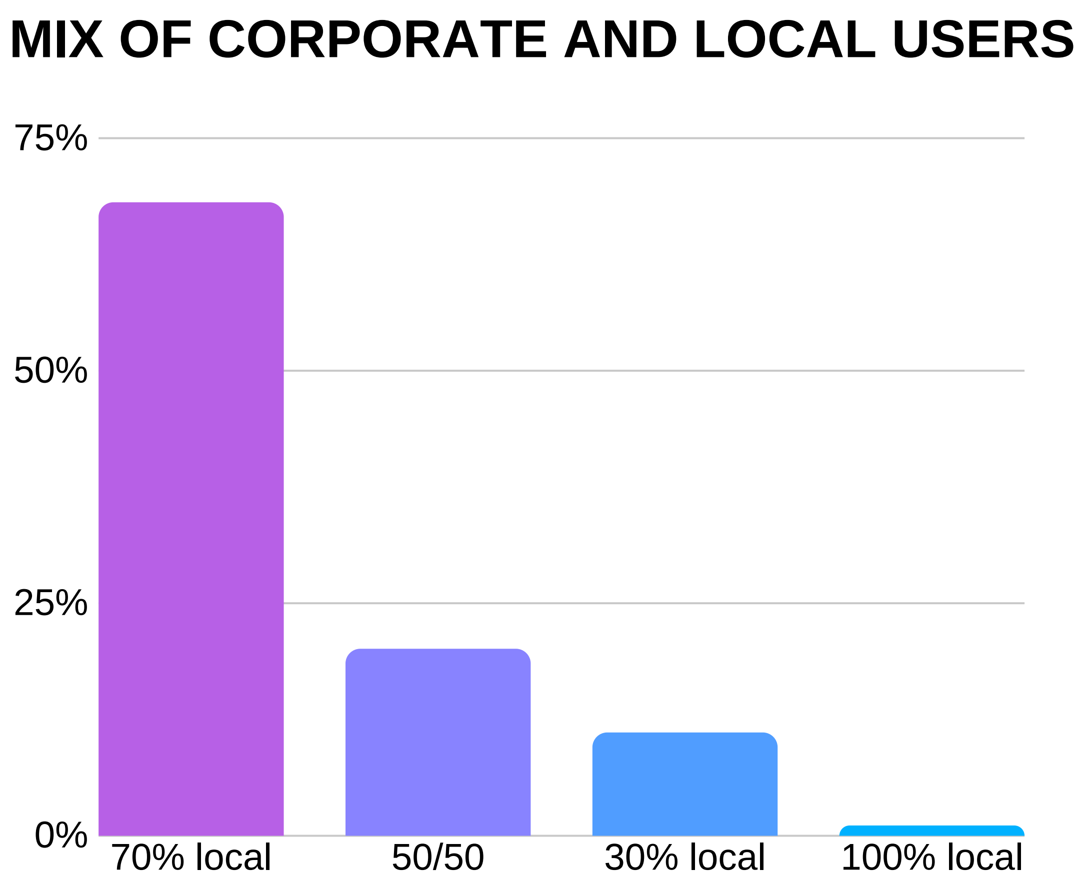


Respondent Overview

Local vs. Corporate User Base - Overall

While corporate users like Microsoft are hitting the flexible workspace model in full-force, the majority of shared workspaces host local, small businesses and freelancers. Spaces that serve 70% local businesses and freelancers jumped up to 68% of respondents, versus 60% in 2017. This shows there is strong growth potential by serving local businesses and corporate clients.

Insight: The Serviced Office sector still serves a lot more corporate accounts with only 17.5% being 70% corporate / 30% local versus only 4.8% of coworking spaces.



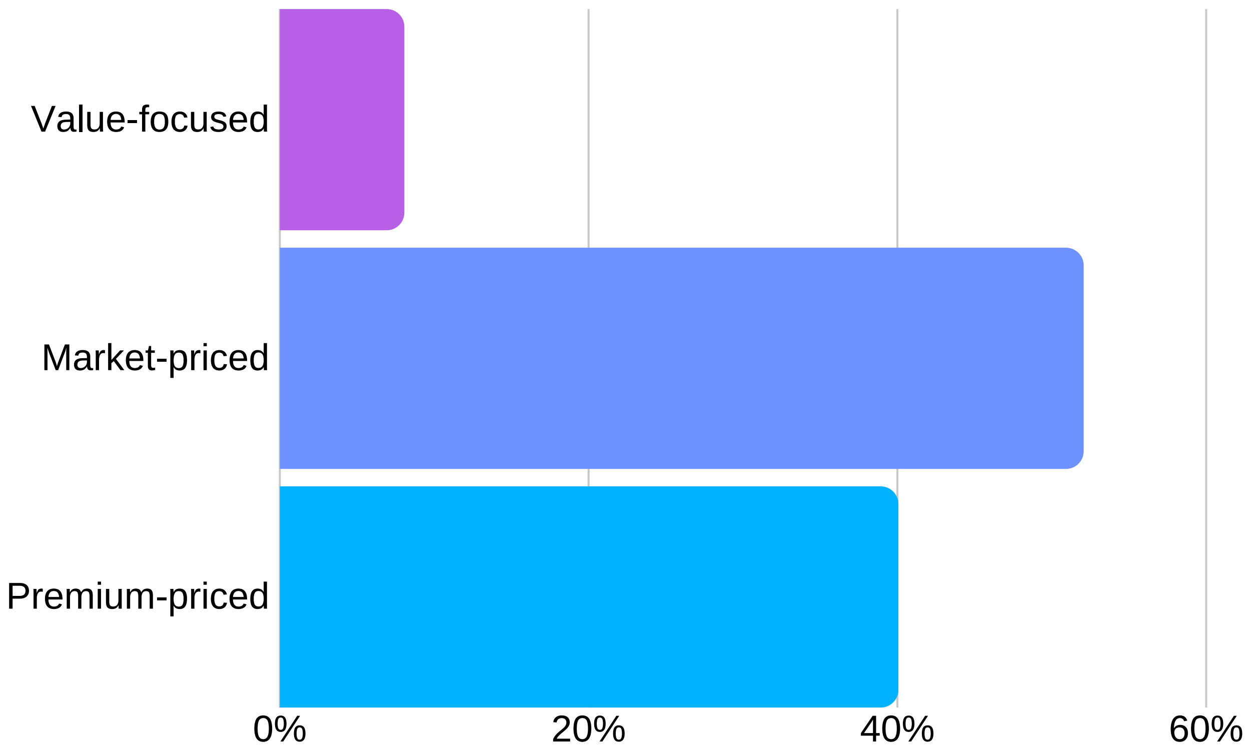
Respondent Overview

Positioning

Most of our respondents described their membership as "generic" (87%) while 13% reported being a niche space.

Pricing

More and more spaces are moving upscale with premium pricing and amenities. The majority, 52%, are still market-priced spaces, while only 8% consider their spaces to be ‘value-focused’ pricing compared to 15% in the previous survey.



Premium-priced spaces are more profitable - $12/square foot vs. $9/square foot for "market-priced" offerings

Business Structures

Over a Quarter of our Respondents Own Their Property Now.

This year we see a broadened scope of business structure type. The predominant approach is still the operator leasing the space with 64% of respondents following that model. 26% of the respondents own their space. 5% of respondents reported a joint venture between the operator and the landlord.

We have been expecting more joint ventures to be happening between the operator and the landlord, but the growth has been more in owning the property. GWA Advisory Board Member Casey Godwin suggest that this trend is based on the coworking operators access to capital. It is much easier to get a loan on a property for your business or gain a financial partner with vested interest in the CRE verse the coworking business alone. This is very helpful in mitigating risk when there's an asset as collateral.

Lease Expiration May Pose Business Risks

As confidence in the shared office business model grows, longer leases are the new normal. 60% of respondents hold leases that expire in more than 5 years from now versus 42% in 2017, with 18.6% of respondents in the 4 to 5-year range. This either means that as confidence in the shared office business model grows, longer leases are the new normal as shared office spaces landlords and founders are willing to take greater risks., or that there were a lot of renewals or new leases signed since 2017.

Longer leases often offer a larger tenant improvement budget for operators to transform their space. As competition increases and spaces position themselves as premium prices, operators are accepting longer-term leases in exchange for lower startup costs.

Peak real estate markets may lead to more joint ventures in the coming years.

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