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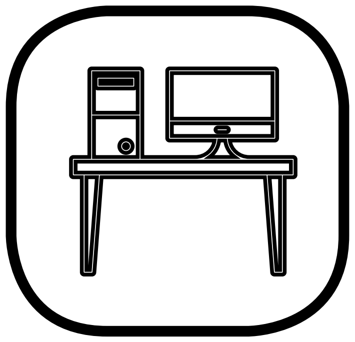
WHY

The Financial Impact of Coworking

Rental Prices and Market Dynamics in the Commercial Office Market

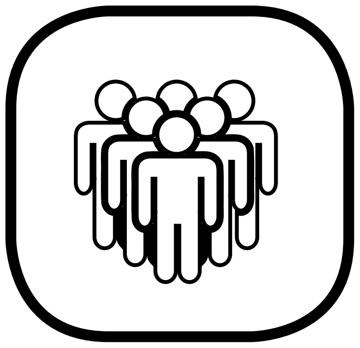
by Andrea Chegut and Mike Langen

About



Coworking providers, like WeWork, have ***CHANGED*** the office. The arrival of hundreds of coworking providers has shifted the competitive landscape for office tenants through differentiating office amenities, leasing fully-equipped desks or offices over flexible time periods.

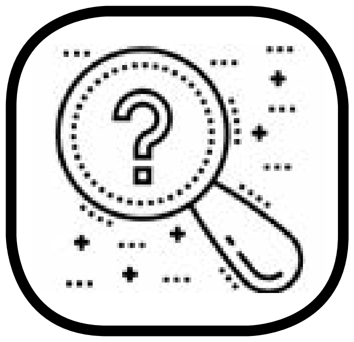
Challenge



Even though coworking providers are a tenant type in consumer demand and with a lot of media hype,

LITTLE is known about the strategic interaction of coworking providers with landlords in the real estate sector**!!!**

Findings



Landlords treat coworking providers as substitutes to other tenants in the same building by not differentiating between them in effective rent dollars. ***BUT!*** There is a calculus to being equal. Coworking providers take systematically longer lease durations (12 years on average). Yet, get higher tenant incentives, such as free rent periods and tenant improvement concessions.

How

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Despite all the hype around coworking, we aimed to get at how economic actors like landlords and coworking providers were getting along in the market place.

We wondered did Landlords perceive coworking providers like, WeWork and numerous others, simply as a tenant like any other, as anchors to waves of neighborhood development or as a financial disaster waiting to happen?

Substitute(= rents)

What if landlords saw coworking providers just like any other tenant despite them having a similar role?

Anchor (- rents)

Perhaps coworking played a social role, so what if coworking providers were a benefit to building owners and landlords?

Risky Bet (+ rents)

What if with all of the media hype, landlords actually saw coworking providers as risky and treated them as such?

WHAT

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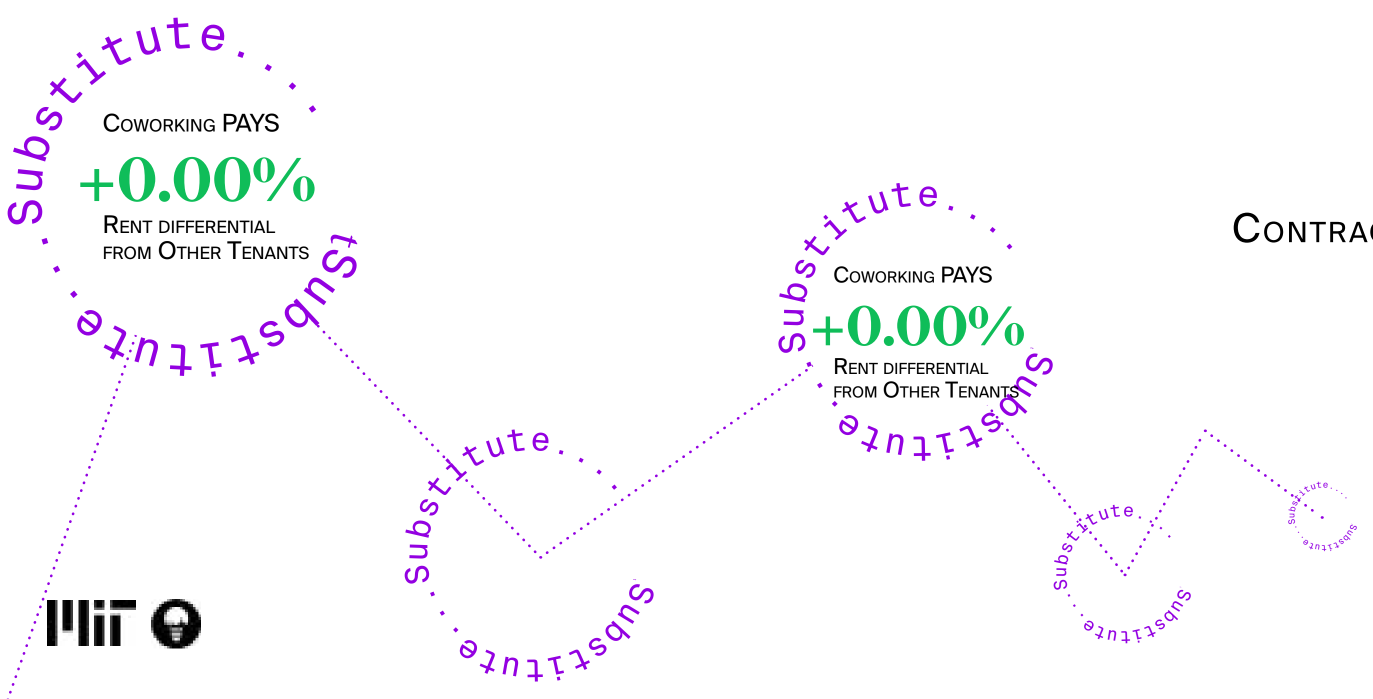
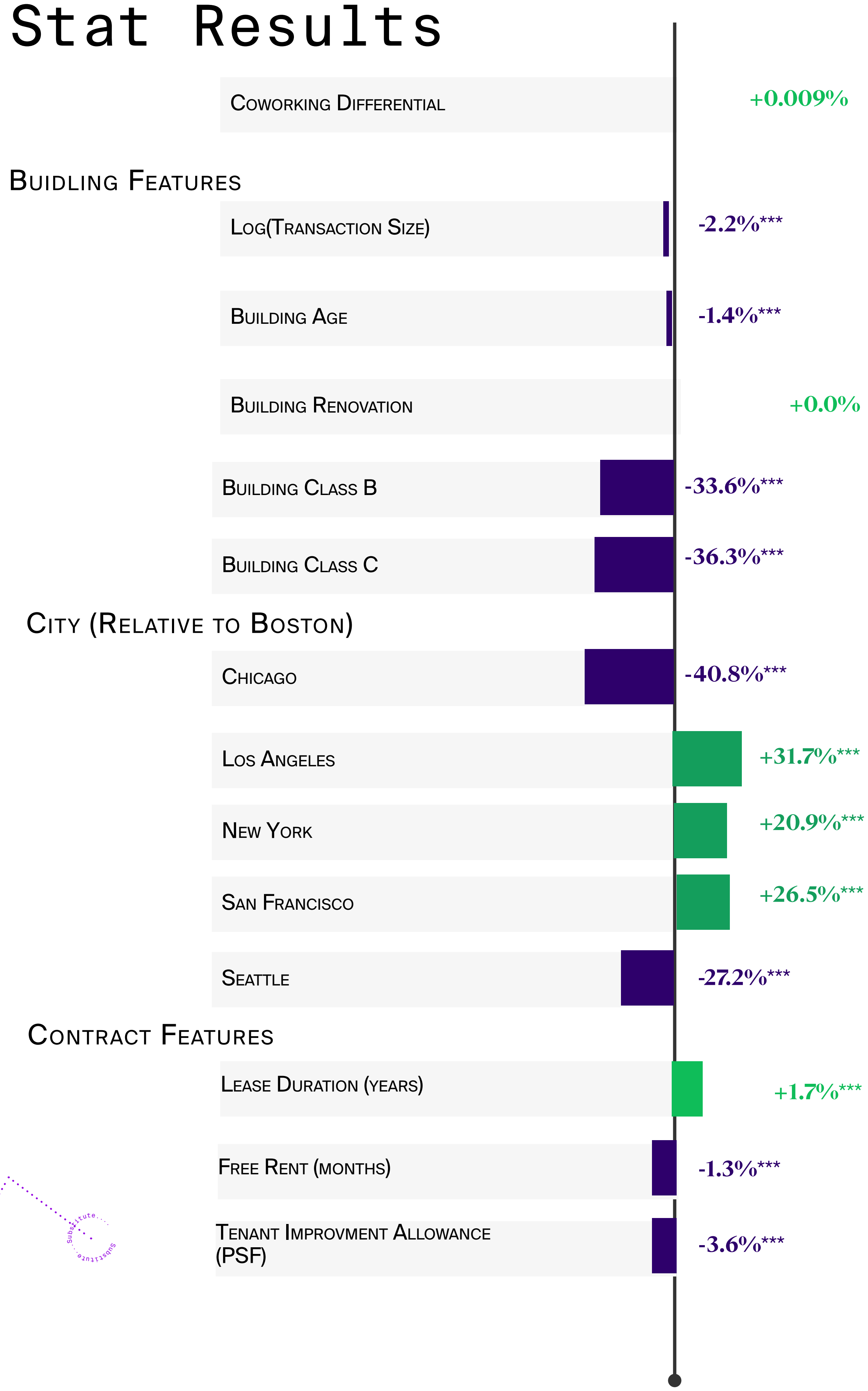
Data

We looked at 222 coworking provider leases across 188 buildings in six major US markets (New York City, Los Angeles, Boston, San Francisco, Chicago and Seattle) with 160 unique building owners.

We take coworking providers' rent contracts including their effective rents, tenant concessions and lease terms and compared them to other tenants' contracts in the same building. Using Compstak data, we have a combined dataset of some 4, 201 effective rent (222 coworking provider and 3,979 within building tenant control) leases over the 2011 to 2018 period across these markets.



Stat Results



WeWork

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Anchoring Benefits

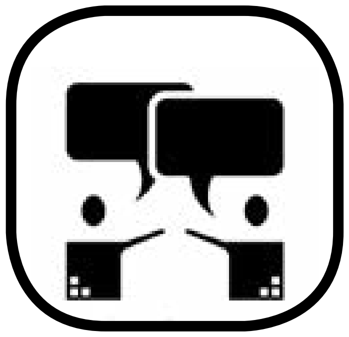
Forget the Hype

We had a look at the 41 WeWork effective rent contracts and compared them to non-coworking providers in the same building. From our statistical analysis we learned that WeWork statistically and economically has a zero effective rent differential. However, when you look deeper you find that WeWork receives more tenant concession compensation.

WeWork like other coworking providers take up 12 year or longer leases. Importantly, this signals that coworking providers are interested in playing a long-term role in the community.

WeWork not receive systematically longer rent free periods than other coworking providers (definitely more than traditional tenants by 9 to 12 months).

WeWork does systematically receive higher TI's, even relative to other coworking providers. They are able to compensate or share with the landlord the repositioning expense.



WHO

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Authors

Dr. Andrea Chegut is the Director of the MIT Real Estate Innovation Lab at the Center for Real Estate and studies the value of design and technology for commercial real estate.

Mike Langen is a PhD Candidate at Maastricht University and studies applications of machine learning for commercial real estate. Mike and Andrea worked on this paper while he was a Visiting Scholar at MIT.

Paper

Link to Paper click [here].

Support

We are grateful for the support of our data providers, and founding lab partners:

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