

Buzzword or fixture?

Texas experts weigh in on the future of coworking

BY BRANDI SMITH

Last month's South by Southwest (SXSW) Festival is a reminder of what Texans already know well: Austin is one of the hottest spots in the country when it comes to technology and innovation. The festival's "Interactive" track drew more than 30,000 people to sessions highlighting smart cities, digital journalism and more over the course of five days. The other 360 days of the year, the crowds are smaller, but the ideas and passion are still there.

"In Austin, we saw young, growing companies, maybe just funded out of a capital factory," said Mike Fransen, senior vice president and managing director of Parkway Properties. "They didn't really have anywhere to go. They weren't mature enough as a company to be ready to sign a five-year lease."

Fransen says Parkway bought Thomas Properties in 2014 and was trying to determine what to do with a number of downtown assets, potentially tapping into that huge pool of entrepreneurs who had nowhere to operate. In 2015, he helped bring WeWork to Texas when the Brooklyn-based company opened its first space at 600 Congress Avenue in Austin.

WeWork, started in Brooklyn in 2010 by Adam Neumann, offers shared space and services for those customers who don't need to lease a huge office long term. The company's website says its mission is "to create a world where people work to make a life, not just a living."

The idea is called coworking and is a concept that has been adopted in cities all around the world as a way to collaborate and innovate.

"It's a place where you can go and be somewhat in the public, but in a private space. You have access to amenities, networking events and an opportunity to meet other people to make business connections," said Julia Georgules, JLL's director of research for local markets. "It doesn't differ that much from the more traditional executive suite concept. You're seeing more open work space within those coworking companies available to people now."

In 2010, Austin had just eight coworking spaces. That number doubled by 2013 and, according to Avison Young, there are 52 today. In fact, approximately 200,000 square feet of downtown space is devoted to coworking, according to Mike Kennedy, managing director of Avison Young's Austin office.

"... a place where you can be really nimble ..."

One of the main drivers behind the push for coworking is the growing independent workforce in America. According to the Bureau of Labor Statistics, 15 million people were self-employed in 2015, which translates to 10.1 percent of all U.S. workers.

"The independent workforce is a critical entrepreneurial force in America. Even in the midst of a rebounding job market and economy, independence remains a viable and desired career

path," said Gene Zaino, founder and CEO of MBO Partners, a company that offers independent consultant services.

The number of independent workers has increased since the Great Recession, when many companies were forced to tighten their belts and lay off employees. As a result, those companies needed less space and vacated offices they sometimes had

held for years. According to Georgules, the combination of laid-off workers with ideas and more sublease space on the market than ever before culminated in a boom for coworking.

Renting coworking space provides those independent workers a home base without tethering them too tightly or for too long.

"I think it is a nod to increase flexibility. It's a nod to a different kind of working environment," Fransen said

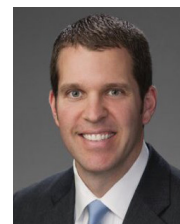
Though the communal nature of the coworking setting might seem like it lends itself to industries such as tech startups, Texas real estate experts have seen individuals from a wide array of professions succeed by choosing the less traditional route.

"A lot of consulting groups are moving in that direction because they're usually out in the field at least a couple days a week, either on site with a local client or they're traveling to other cities in the country. Maybe they only touch down in the office on a Friday or a Monday or just when they have down time," said Wyatt McCulloch, senior associate at CBRE's Downtown Houston Office. In those instances, he explained, paying rent for a full office just didn't make financial sense.

In some cases, coworking space can also be used as a transition from one office space to another.



Wyatt McCulloch
CBRE



Mike Fransen
Parkway Properties



Julia Georgules
JLL

wework



WeWork Austin

Courtesy: WeWork



Mike Kennedy
Avison Young



Gene Zaino
MBO Partners



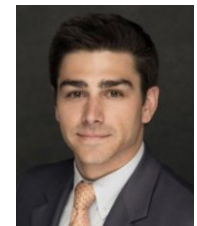
Lucian Bukowski
CBRE



Greg Fuller
Granite Properties



Damon Thames
Colvill Office Properties



Andrew Alizzi
Avison Young

TECHSPACE

"I've seen financial services consultants who are breaking off of the bigger firm and starting their own firm. They go into a coworking space for 60 days until they can establish a permanent office," said Lucian Bukowski, executive vice president of CBRE's Occupier Team in Downtown Houston. "Coworking is an option if you're looking for a place where you can be really nimble and get your business off the ground before you make a commitment to a longer term, more traditional office lease."

Though professionals who utilize coworking can come from almost any industry, a clear majority appear to come from a specific generation: millennials.

Kennedy called coworking "a natural progression in the millennial lifespan." It creates an interesting dynamic in buildings that host open, collaborative spaces.

"You have coat-and-tie professionals who had previously been riding the elevators with others in like attire. Now they're sharing the space with individuals who are wearing cargo-shorts, flips flops and earbuds," Kennedy said.

"... jump into it for that day ..."

Having experienced success with bringing a coworking company to Austin, Parkway Properties is introducing TechSpace to Houston. The company will lease the first two floors of Parkway's 2101 CityWest building in the Westchase District.

TechSpace will offer "95 private office suites totaling 450 workstations" in roughly 46,000 square feet, according to its website. The space offers a reception area, a common lounge and a pyramid lounge.

"Especially in Houston, we need this kind of use. Energy needs this kind of use," said Fransen. "There's a lot more open space, a lot more benching going on. It's just a different experience."



Reception Area

Courtesy: TechSpace

TechSpace describes its first Houston location as "smartly configured" with floor plans designed to foster collaboration. The campus includes "interconnecting and scalable offices, fully-equipped conference rooms and thought-provoking collaboration lounges combined with energetic community experiences." The space also features an on-site technology platform that TechSpace bills as "enterprise-class, Tier 1 IT infrastructure complete with a private, firewalled data network, dedicated and burstable internet connectivity and advanced voice telecommunications."

Fransen, who pointed out he in no way spoke for TechSpace, but was happy to work with the company, said it offers a variety of options for potential tenants. He said an open seating area provides a space for those who want more than a booth at Starbucks from which to work.

"That's for someone who doesn't need a special space. They just need a desk or a seat for the day, for the week, or whatever. They walk into this space and jump into it for that day," said Fransen.

Beyond open seating is a suite program, according to Fransen, which is enough space for a small and evolving company. It allows flexibility for employees as the organization grows.

"The beauty of TechSpace is the relative flexibility to open a connector between two 10-person offices to make that a 20-person office. Then maybe there's another connector that turns it into a 40-person office," Fransen said. "That's something relatively new to Houston, because those smaller-pocketed coworking environments top out around 10,000 feet."

In North Texas, Granite Properties is currently working on two spaces for which coworking space is being considered. The company has already leased approximately 25,000 square feet in its Plano tower Granite Park V to Common Desk, a Dallas-based coworking community. Now Granite is looking at similar options for its Granite Place and Factory Six03.

The latter is what used to be Dallas' West End Marketplace. Built in 1903, the brick-and-timber building was home to lots of '80s nightlife, but went dark for more than a decade.

"There are many firms that prefer open, collaborative, historic buildings," said Granite's president and COO, Greg Fuller. "Factory Six03 was an opportunity to provide a larger building in a market that traditionally doesn't have this type of space. Dallas just doesn't have the old buildings that some of the older markets have."

Fuller added that, though the building has historic appeal on the exterior, it will be completely refurbished inside.

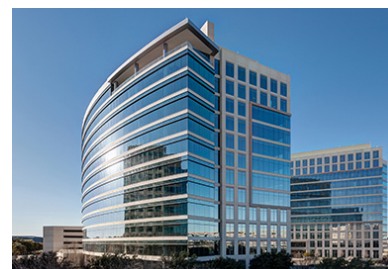
Already, Granite has secured its first tenant; Blue Cross Blue Shield will occupy the top two floors, stretching across roughly 40,000 square feet. Fuller said there's plenty of room for more companies to move in.

"The building breaks up logically in various spaces and various sizes. We can accommodate from 2,500 square feet to 150,000 square feet," he said.

Fuller said he's looking at the possibility of hosting

a coworking space in Factory Six03 because he suspects the approach will only gain popularity.

"I don't think it's a fad. I think that the desire for flexibility on the part of large and small tenants is here to stay," he said.



Granite Park V

Courtesy: Granite Properties

“... something to create a stir ...”

As more people start using coworking space instead of a traditional office, it begs the question: what kind of impact will this have on the office market?

Damon Thames, vice president of Colvill Office Properties in Houston, believes coworking space is and will be successful because it acts as “incubator space,” allowing small companies to grow and possibly move up (literally) a few floors in the same building as their business grows.

“Coworking space is competition for traditional office space because with any business it is going to have to compete with what makes the tenants most happy,” Thames said.

McCulloch disagreed, arguing tenants who would historically lease traditional space will continue doing so, while startups and smaller companies will lean toward a more flexible arrangement.

“I don't think it's a threat. I do think it's another option,” he said.

Added Bukowski: “I think it has a very valuable function in the marketplace, but I don't think it's going to revolutionize the office market. It's not going to change the way 95 percent of the users use their office space.”

He said so far, though coworking has certainly established itself as a trend, it hasn't moved the needle yet.

“A lot of people are using it as a buzzword, something to create a stir, but I don't see a significant need for coworking space,” Bukowski said. “It's just open-plan executive suite space with a sexier name on it.”

According to Georgules, the idea has already had a “huge influence” on the traditional commercial real estate industry, as we've seen in examples such as Factory Six03's open, communal-style lobby.

“Coworking is showing building owners what's possible in a space through design and communal areas, how you can really engage the people utilizing the space,” she said.

Fransen said traditional office and coworking can work hand in hand, one feeding into the other.

He says users will need to take more time to educate themselves about the pros and cons of coworking, subleasing and leasing.

“We view this as an actual enhancement to us,” he said. “If you're growing quickly, even though you may be comfortable signing a longer-term lease, it is a bit of a relief to know about something like TechSpace. It won't be uncommon to see a combination of space being occupied by someone in a building that has this sort of coworking.”

“... in the elevator ...”

As the market responds to the introduction of coworking space, many developers are faced with the decision of whether to add it to their projects.

“We're spending a lot of time trying to figure out the next generation and catering to them,” Bukowski said. “I think companies are smart to be nimble and look ahead, but I don't want to bet all of my chips on the next generation and how they want to work and how they use space.”

Andrew Alizzi, research coordinator for Avison Young's Austin office, said developers should consider three scenarios when weighing the value of coworking space.

- 1) A developer can bring in an established coworking provider, such as WeWork or TechSpace, to lease a space in a building to create a coworking environment.
- 2) A developer can directly designate floors of a building to coworking and operate as a landlord for that space.
- 3) A developer can reserve some space within a building for companies that outgrow their coworking space.

“Landlords are finding that coworking office space attracts different types of companies,” Alizzi said. “On one hand, there are tech companies and



Factory Six03

Courtesy: Yardi ATRIX

other large or established companies. On the other, there are startups and small companies who may only want a desk space.”

Adding coworking isn't without risk. Alizzi pointed out that the concept's popularity skyrocketed after the Great Recession, so it has not yet been tested by an economic downturn to determine its longevity.

A developer must also consider the personality of the building and potential coworking tenants. Fransen said that's something he encountered when WeWork moved into 600 Congress.

“There's what I call ‘Class A office etiquette’ issues you have to make sure you understand because you do have different demographics bumping into each other in the elevator,” he said.

Coworking also generates increased density for a space, leading to more wear and tear, according to Kennedy. Instead of five people per 1,000 square foot in a traditional space, coworking environments can often have twice that, he said. Parking can also be a challenge.

If all of that works for a developer, there is then the issue of space: just how much is needed for coworking?

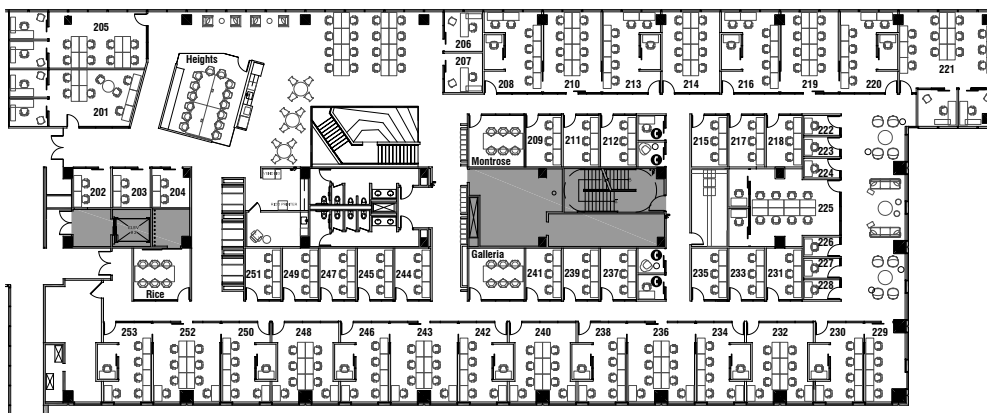
“One of the key mistakes a lot of companies are making is they're not planning for enough space beyond the collaborative environment. Tenants need a space where they can have private phone conversations,” said McCulloch. There has to be enough space where users can go work quietly when they need to. Otherwise, open plans are not always the best for every employee in every situation of the day.”

In that vein, Bukowski encouraged developers to consider the differing needs of clients. For example, he pointed out, an open space is an exceptional forum for stimulating teamwork, creativity and an exchange of ideas. It is not ideal in other scenarios.

“If you need space to concentrate, it's hard to focus if there's a lot going on,” he said.

Having worked through those issues, Parkway is excited to celebrate TechSpace's opening this month at 2101 CityWest.

Added Fransen: “To make it sustainable and make it successful, everybody's got to be realistic and understanding of practical implications of putting this sort of use in your space, especially in Houston.” ■



CityWest Blvd

Courtesy: TechSpace Parkway