Flexible space sector trends

Americas Research

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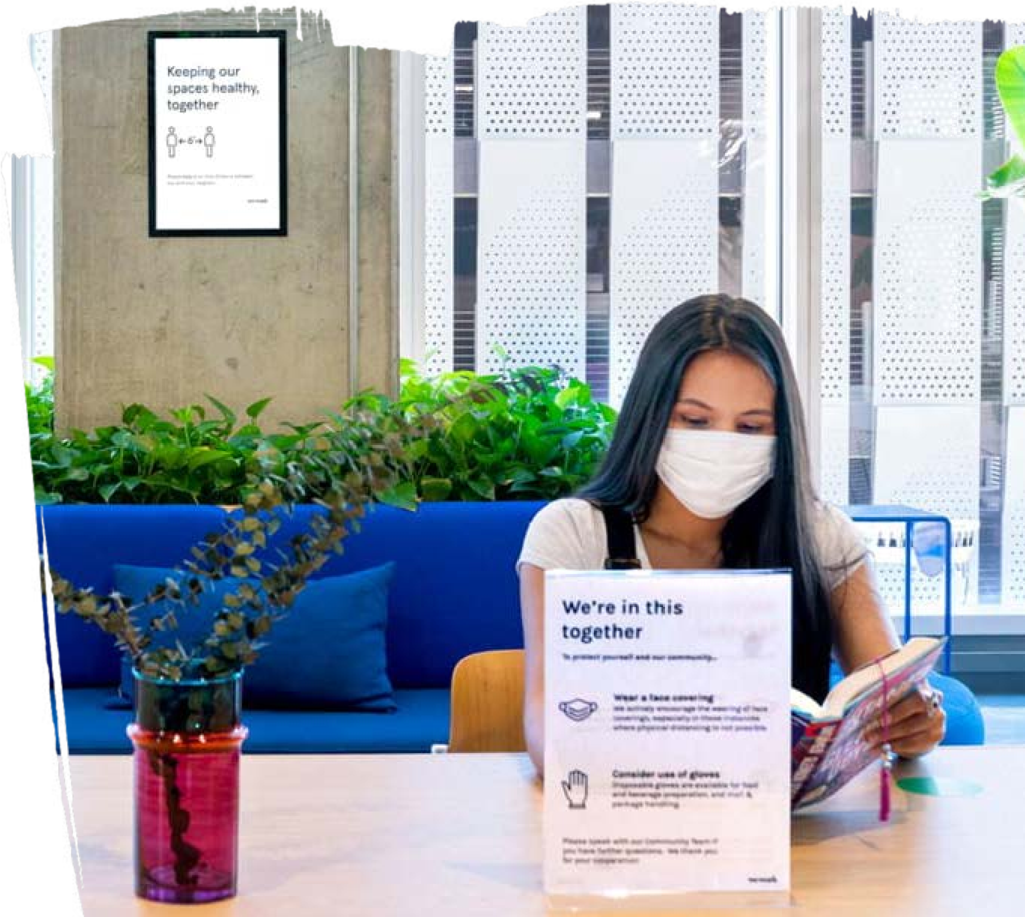
Outlook

State of the market

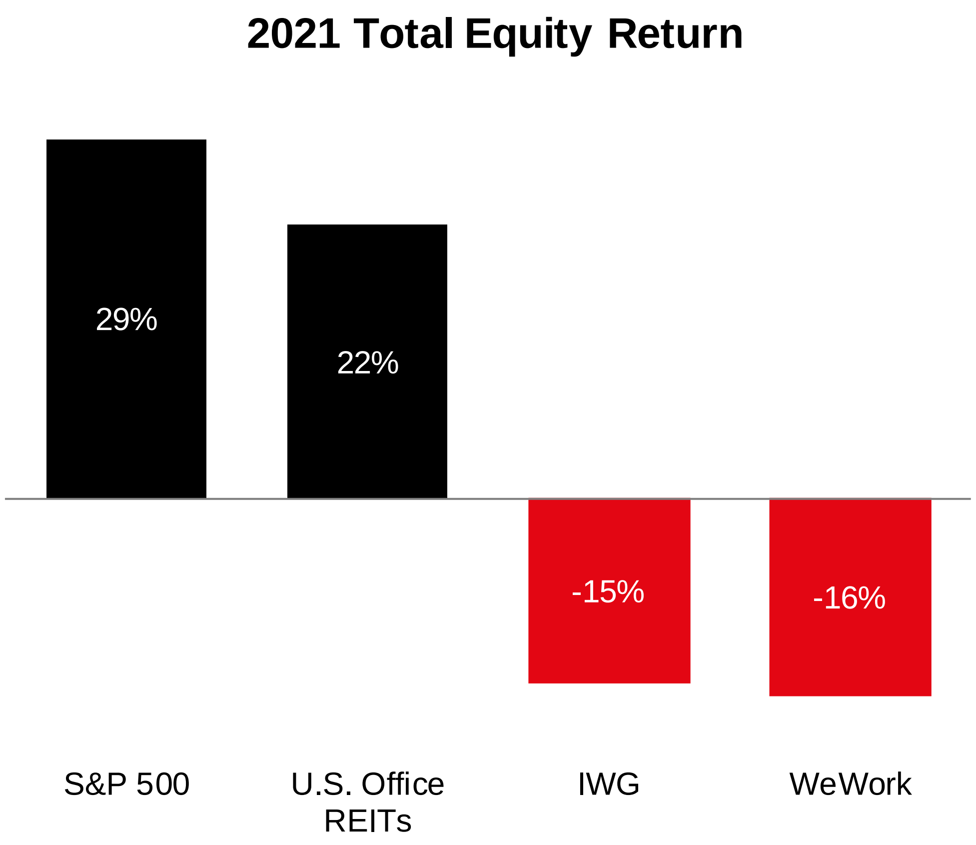
- **Office demand is shifting to flexible formats**. Pandemic-related uncertainty, hybrid work, changes in employee preferences and tenants' increased need for agility are driving a surge in interest for short-term space options.

- **Landlords are incorporating flexibility and hospitality services into their portfolios to adapt to changes in occupier demand**. Integrating flexible space into multi-tenant assets creates synergies by driving foot traffic, incubating leasing prospects and providing amenities to tenants.

- **Investors should take calculated risks as they await data on operating performance, asset pricing and liquidity**. Innovative new deal structures are being introduced that mitigate risk, maximize return potential and confer greater control of space and customer relationships to landlords.



Choppy near-term performance obscures favorable long-term growth potential



- **Flexible space operators continued to struggle in 2021**. Although equity market performance was stellar across most sectors in 2021 – including office REITs – flexible space operators witnessed a challenging year, with the two largest operators shedding 15%-16%.

- **Optimism is rising given recent resiliency in demand**. Customer inquiries increased 94% year-over-year and 40% quarter-over-quarter in Q4 2021, as enterprises, small businesses and freelancers revisited leasing decisions they had put on hold.

- **Pricing is stabilizing, which will help operators return to profitability**. Operators report scaling back concession packages (discounts and free rent), creating the first uptick in net effective rates since the onset of the pandemic. Combined with lease restructurings that reduced many operators' fixed-cost structure, this places the industry on a path to profitability.

Flexible space overview

JLL forecasts a dramatic shift in the office market, as tenant demand for more flexible space options forces landlords to adapt to occupier preferences.

In the decade leading up to COVID, the flexible space sector grew at an average annual rate of 22%. That compares with just 1% average annual occupancy growth of the broader U.S. office market over the same span. The COVID-19 pandemic and resulting shift of personnel from offices to work-from-home arrangements is likely to spur a new, more agile “work-near-home” movement that leverages flexible space as a pillar of re-entry and long-term “hub-and-spoke” occupancy planning. Some companies – such as Standard Chartered and NTT – have already announced enterprise-wide arrangements to provide flexible workspace to employees, providing them with greater autonomy over when and where they work.

Although historically catering to freelancers, start-ups and small teams, large companies have grown to account for over one-third of industry revenue, and Fortune 500 occupiers continue to embrace agile work, validating the demand for pre-built, flexible-term, amenity-rich spaces. WeWork delivered flexibility at a scale that was previously unseen in commercial real estate, in some cases leasing multiple floors or entire buildings to single users, defying conventional real estate industry norms with move-in-ready spaces available for short commitment periods through a frictionless transaction process.

Industry giants WeWork and IWG (which includes Regus, Spaces and several other subsidiaries) control 57% of the U.S. flexible space market by rentable building area, but there are hundreds of flexible space operators worldwide, highlighting the fragmented nature of the industry and low barriers to entry. Increasingly, with operators facing financial hardship, landlords have become more accepting of management agreements and/or have explored self-perform models.

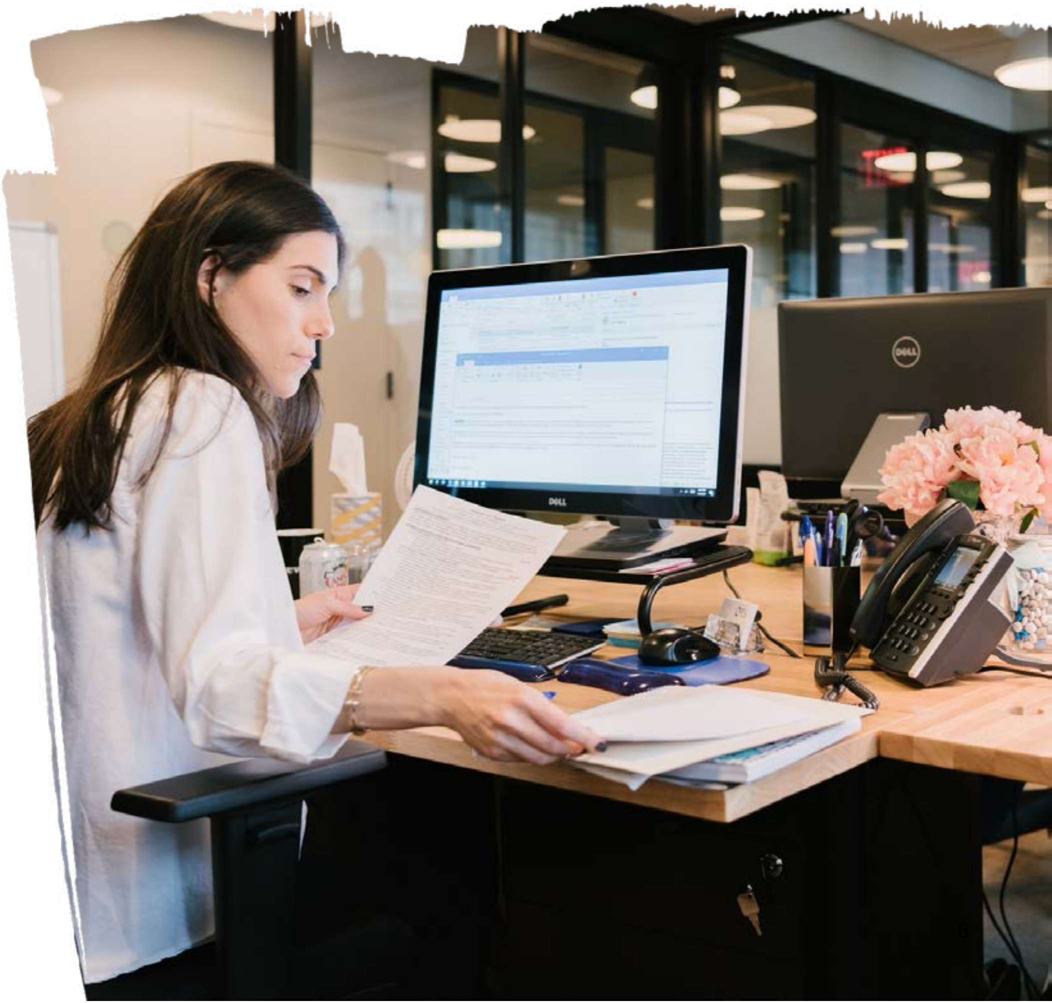
Although WeWork’s unsuccessful IPO attempt in 2019, and subsequent bankruptcy filings by smaller operator (such as Knotel, Breather and MakeOffices) called into question the financial viability of the business during economic cycles, we remain convinced that we’re witnessing an enduring disruption within the commercial real estate industry, and lease structures, the procurement process and buying behaviors will be fundamentally changed as a result of the innovations these next-generation flexible space operators have introduced to the marketplace.

Flexible space overview (continued)

Consumer preferences for flexible-term, move-in-ready, hassle-free spaces have given rise to various coworking operators, and WeWork's unique ability to offer these spaces at previously unseen scale helped validate demand for flexible space among larger and more traditional segments of the office tenant base. For their part, owners have responded by building more spec suites, partnering with coworking operators through revenue-share agreements, and in some cases, launching their own flex space platforms.

The flexible office model has been around for decades, but the business has historically struggled with the rent-arbitrage dynamic in economic downturns (given a mismatch in the duration of lease liabilities and committed cash flow). With this inherent challenge in mind, investors and operators have explored alternative financial models that more closely resemble retail and hotel deal structures, including revenue sharing and/or fee-based management agreements. Industrious has built an extensive network of spaces by almost exclusively partnering with owners via management agreements. Industrious executed 35 such transactions in 2019 – including partnerships with Macerich and Taubman Centers, which extended the company's reach beyond office properties to suburban malls and urban retail – and converted over 60% of its legacy leased portfolio into management agreements in 2020-21 as they navigated the pandemic.

Large landlords have also introduced a variety of self-perform concepts, such as Tishman Speyer (Studio), Boston Properties (Flex by BXP), Irvine Company (Flex+), Washington REIT (Space+) and MRP Realty (Heyday). Brookfield has invested in Convene, a full-service platform that integrates meeting and event spaces along with flexible workspace, dining and hospitality functions. Blackstone acquired London-based The Office Group and The Carlyle Group invested £150 million into the launch of Uncommon. We expect continued exploration and investment from building owners into flexible space solutions, with future industry growth driven principally by self-perform and management structures rather than riskier sublet models.



Flexible space operators have faced challenges, but the sector is experiencing a wave of new investment

JLL

Operators	wework	Publicly traded (NYSE: WE) after raising $1.3 billion via SPAC/PIPE in March 2021… announced a strategic partnership with Cushman & Wakefield, with C&W contributing $150 million for a 2% equity stake in the company… launching "SaksWorks" venture with Hudson's Bay to place workspace in five NY-based Saks Fifth Avenue stores, in addition to existing locations in Canada… stock trading 30% lower since being listed.
	IWG International Workplace Group	Reporting sales inquiries above pre-pandemic levels…forming joint venture with Hysan Development to operate 32 locations in China… raised $945 million in December 2020 through issuance of convertible notes.
	INDUSTRIOUS	Announced a $200-million investment by CBRE in February 2021… planning over 1 million s.f. of expansions via management agreements.
Investors	TISHMAN SPEYER	Self-performing a coworking business line via its Studio brand, integrating with Zo, its workplace experience app.
	Brookfield	Involved in various partnerships and trials, including a previous investment in Convene, trial with JLL (Orchard) and spec suite programs.
	The Blackstone Group	Reportedly exploring self-perform models via EQ Office…acquired London-based The Office Group for $640 million back in 2017.
Service providers	CBRE	Folded Hana operations into Industrious as part of its $200-million investment.
	NEWMARK	Obtained control of bankrupted operator Knotel through $20 million debtor-in-possession financing.
Occupiers	STATE STREET	Closing its two traditionally leased NYC offices and shifting personnel to Tishman's flexible suite offering and various suburban outposts.
	Standard Chartered	Signed new enterprise agreement with IWG, providing "work-near-home" solutions to 95,000 employees.

Bright spots following the pandemic

Occupancy on the rise

WeWork reporting its strongest sales since 2019, with occupancy growing from a low of 47% to 60% as of Q3 2021… IWG reported four consecutive months of occupancy gains (+120 bps in Q2) and 54 new enterprise agreements representing 700,000 customers.

Corporate inquiries trending upward

Online search results and new corporate inquires for coworking space have increased in recent months. IWG reported a threefold increase in the conversations they're having with large companies (the company cited a multiyear deal with Ernst & Young to move its Norway headquarters into a new Spaces in Oslo; a 1,500-member deal with Nestlé in China and an arrangement with Standard Chartered to provide flexible workspace to their 95,000 employees). Tencent also signed a 300-desk deal in Singapore with a local operator.

Demand for hybrid work solutions soaring

In recent statements, WeWork reported strong growth of its All-Access passes. This product offers a $299 monthly rate or $29 daily rate for drop-in spaces, which have become popular as a home-office alternative for employees working remotely. IWG also reported double-digit growth for its "home-to-work" product, which serves the hybrid workforce with flexible, on-demand spaces.

Investor sentiment improving

WeWork's 7-year unsecured notes have strengthened from a low of 28 cents on the dollar in May 2020 to 92.7 as of February 4, 2022. Industrious closed on a $200-million round in February 2021 in which CBRE acquired a 35% stake (potentially growing to 40%) and WeWork raised $1.3 billion via its SPAC. Access to capital across the sector seems to be improving substantially relative to the early days of the pandemic.

Demand

Tenants are alleviating real estate pain points with flexible space

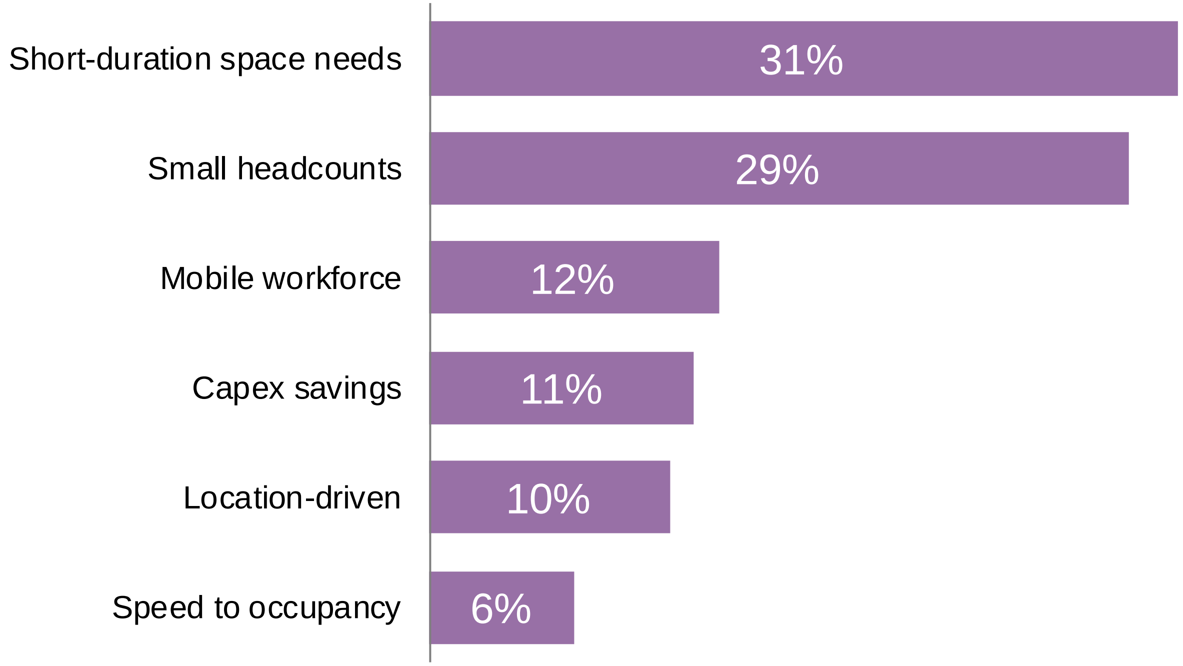
Objective	Challenge	Solution
Cost reduction	Amortizing cap-ex over short periods of time and aligning lease durations with actual space needs	Pre-built, move-in-ready space can reduce initial out-of-pocket expenses, enable greater efficiency and potentially drive down total occupancy costs.
Flexibility	Companies can quickly outgrow space and may struggle to forecast long-term changes in headcount	Flexible space options can help organizations 'buy time' as they launch new initiatives, establish growth projections and develop longer-term space strategies.
Collaboration / Innovation	Remote work is reducing face-to-face collaboration, impacting productivity and creating social isolation	Coworking arrangements may foster innovation through increased employee interaction, exposure to new business concepts and cross-pollination of ideas.
Talent attraction	The 'war for talent' is requiring expansion in new markets and increased agility in site selection	Companies can quickly enter a submarket with desirable workforce demographics, ramp up hiring and/or reduce commute times for existing employees.

Factors driving flexible space demand

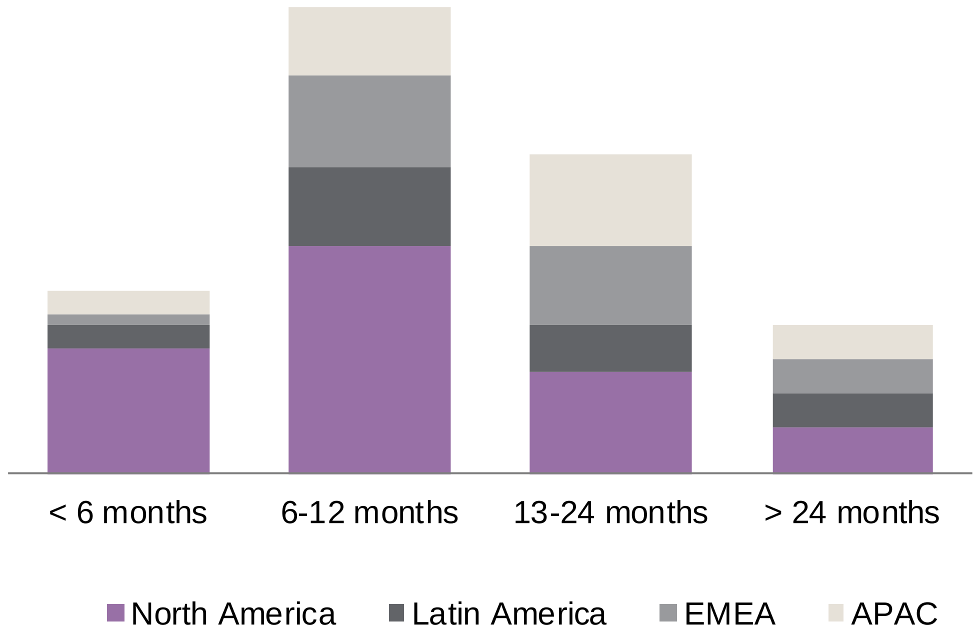
		Potential benefit to occupiers
Short-term deal structure	Lease commitments typically < 24 months. Occupiers can reduce initial out-of-pocket expenses and better manage capex and amortization over short periods of time.	**Agility**
Pre-built/reconfigurable space	Uniform furnishings or ‘limited menu of options,’ which accelerates the design/build process and creates economies of scale for owners/operators.	**Speed**
Standard membership agreements	Legal bottlenecks avoided through uniform lease agreements.	**Simplicity**
High-touch service	Concierge service, including reception and IT support, food and beverage offerings, events and wellness programs.	**Convenience**
Collocation and community synergy	Opportunities for interaction/collaboration among employees/members (intercompany or intracompany), both in person and through digital channels.	**Collaboration**
Technology enabled spaces	Space consumption optimized, occupancy data collected and employee experience elevated through digitization and technology.	**Efficiency**

Companies are leveraging flex space to enhance agility, navigate uncertainty and improve efficiency

Primary reason for choosing flex space

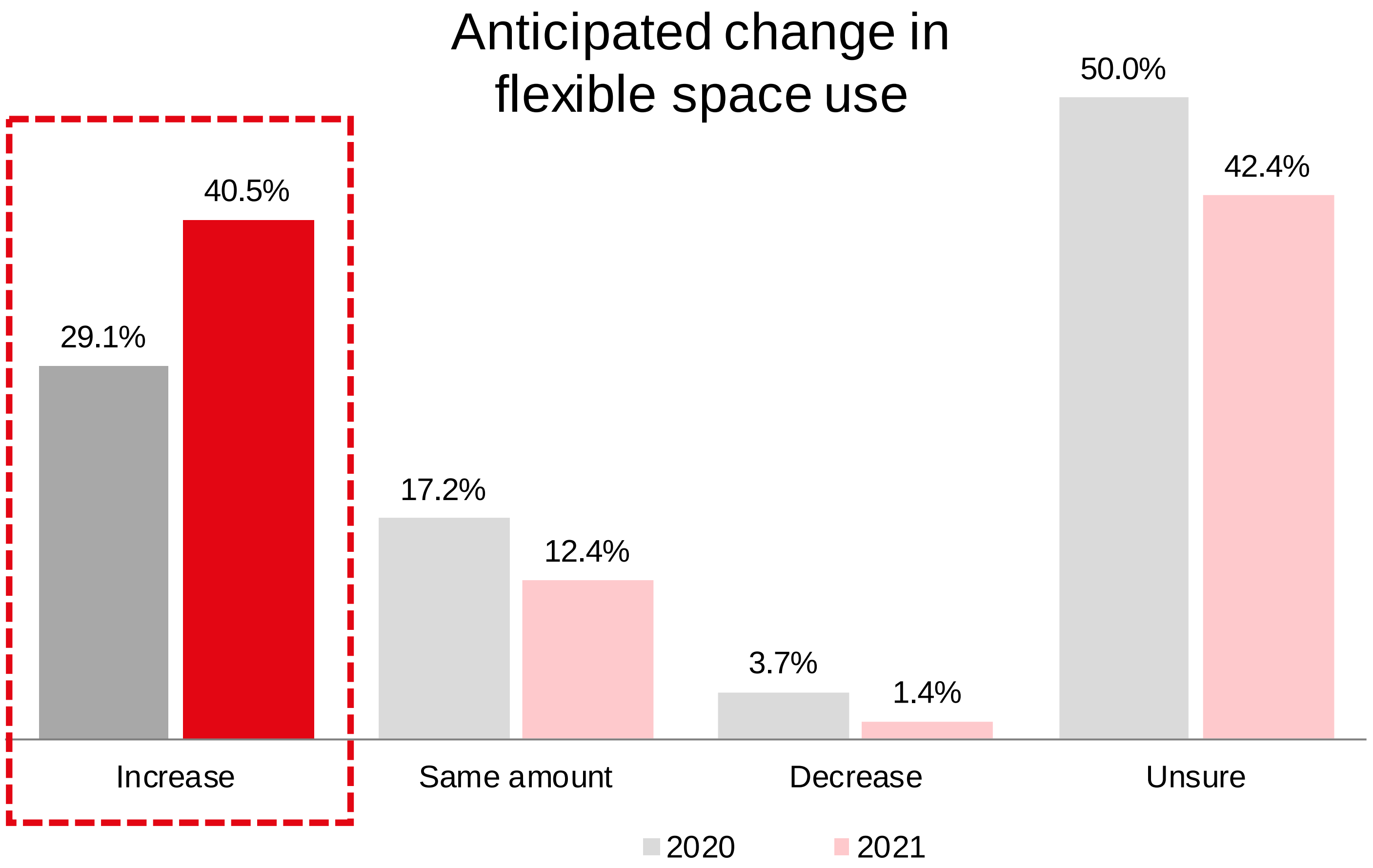


Typical commitment length of ~12 months underscores flex space's ability to serve fluid space needs



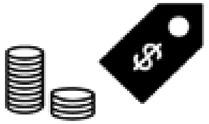
Source: JLL Occupancy Planning Survey, 2020

Companies anticipating increased use of flex space as part of post-pandemic workplace strategy

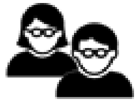


Demand drivers

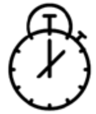
Short-duration space needs



Cap-ex avoidance



Accommodating small headcounts



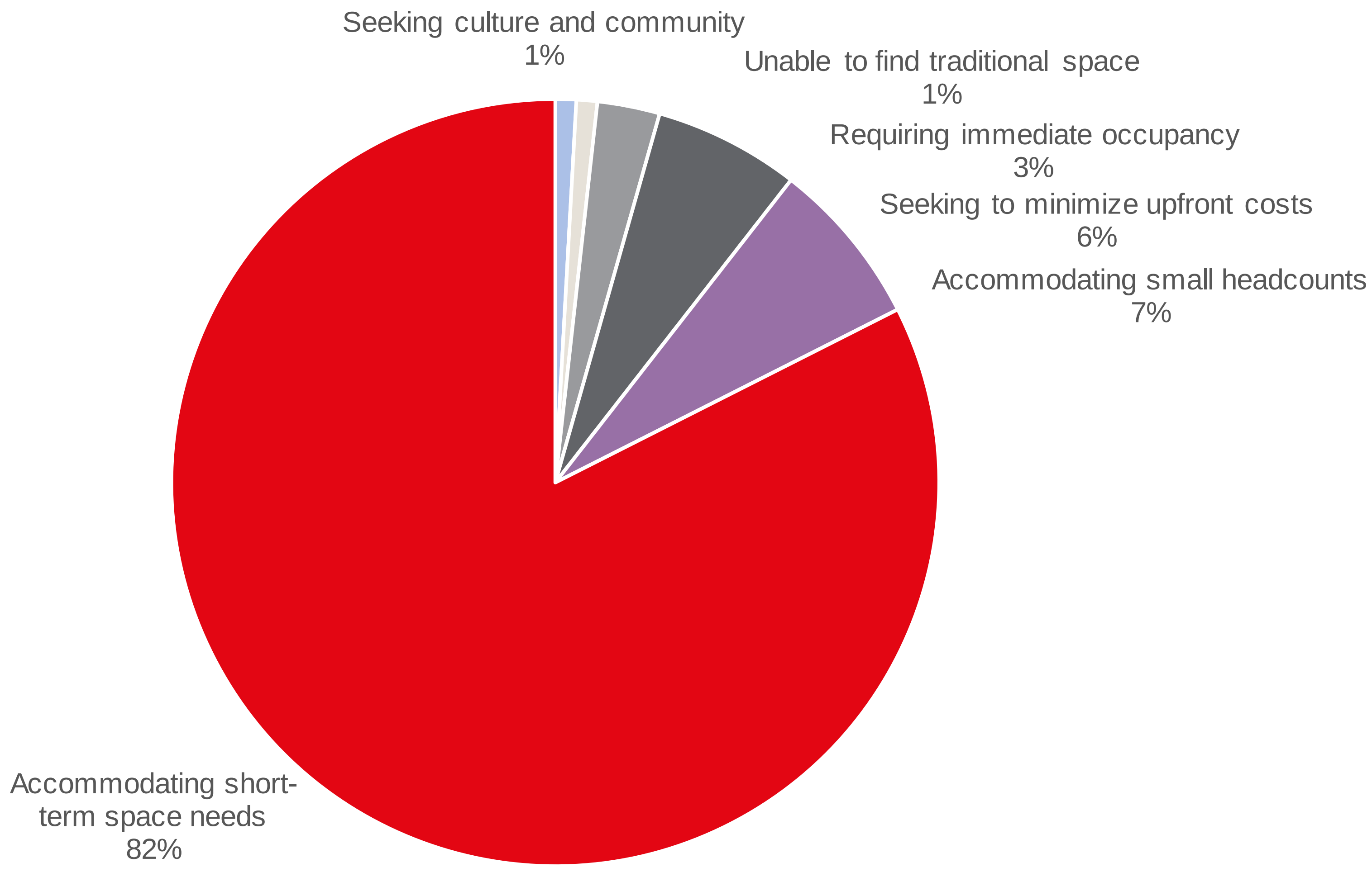
Speed to occupancy

Serving mobile workforce

Employee satisfaction

Source: JLL CS Pulse Survey, N = 1,063

Corporate demand drivers for flex space among brokered transactions are varied, but emphasize short term needs

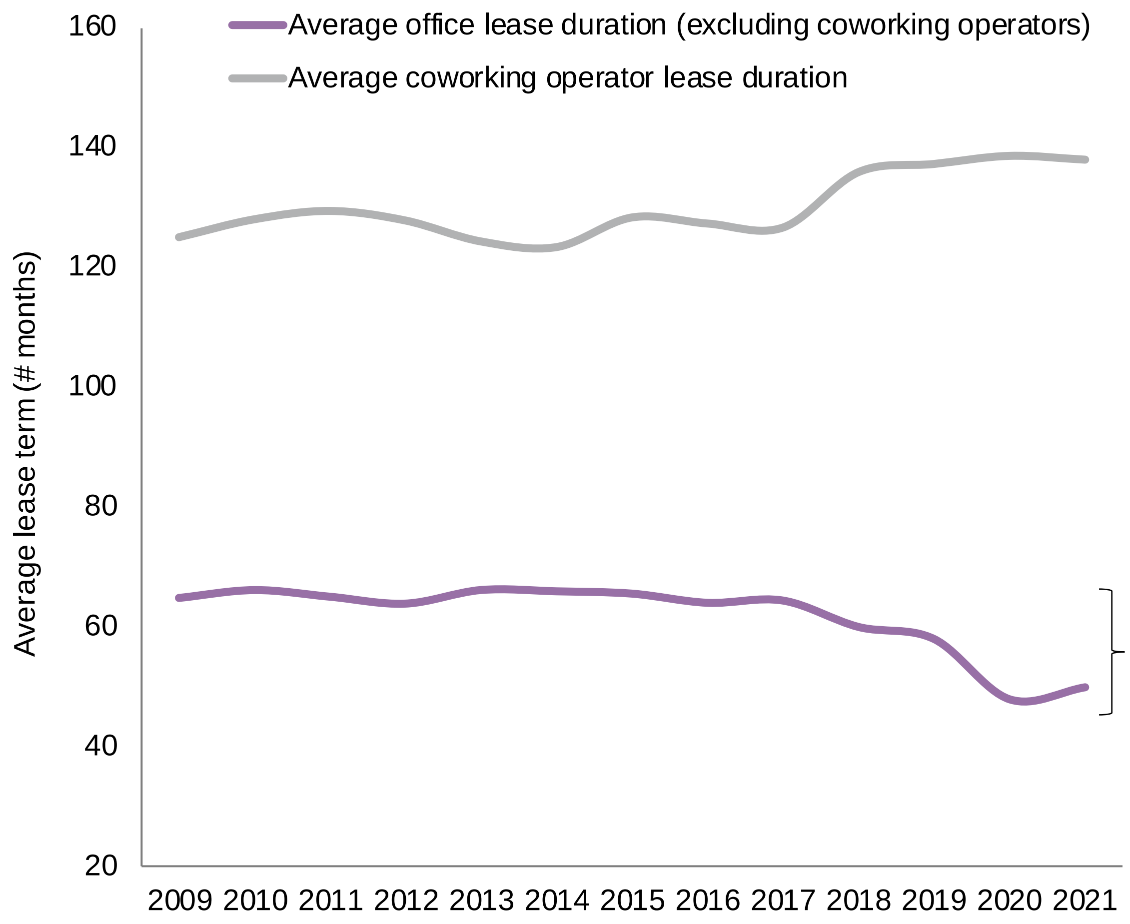


Source: JLL Research broker survey. N = 109

My clients have chosen flexible space when…

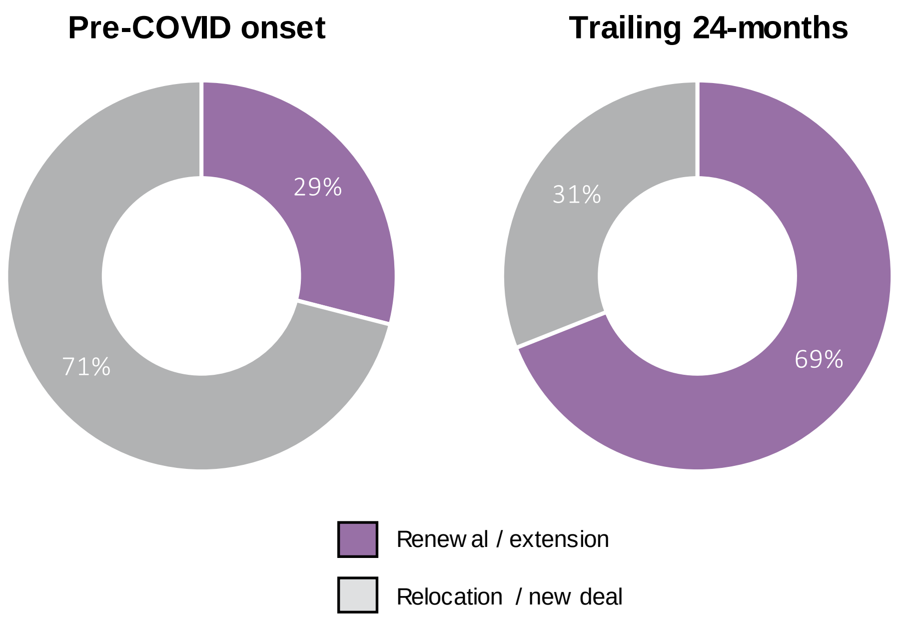
- “They needed space for < 1 year”
- “Their workforce is remote, and they wanted to provide alternatives to working from home.”
- “They required swing space”
- “They needed temporary space”
- “They needed short-term space”
- “They’re facing business uncertainty”
- “Growth plans are uncertain”
- “They had an interim space need”
- “They’re unsure about growth”
- “They’re growing fast”
- “They needed flexibility”
- “They’re entering a new market”
- “They’re growing and don’t want a long-term commitment”
- “They need space quickly”
- “They lack capital”
- “Their timing is immediate, and they don’t want to commit to 5+ years of term”
- “They need short-term space and don’t want to pay for the build-out”
- “The market is so tight that they can't find their ideal space”
- “I have only worked on one deal where they chose [flex] over traditional office space and it seemed be a generational decision”

Tenants' need for flexibility and agility has increased due to heightened uncertainty



25%
Reduction in average term length

Renewals and blend-and-extends comprising nearly 70% of all leasing



Corporate case studies

British multinational bank Standard Chartered signed a comprehensive agreement with IWG to provide flexible workspace options to employees as part of a new "work-near-home" strategy. The company's 90,000 employees will be able to apply for a formal flexible working arrangement – 60% of its staff surveyed in its first phase have accepted the offer for some form of hybrid work, including 66% in Singapore, 76% in the U.K. and 79% in the U.S. It is anticipated most employees will fall into a hybrid pattern, although some will spend all of their time either at home or in a Standard Chartered office.

Microsoft established a partnership with WeWork in New York that's being called "City as a Campus." The arrangement involves a "pooled credit" system in which over 300 Microsoft employees with WeWork memberships – primarily sales staff – can use the WeWork mobile app to reserve touchdown space or meeting/conference rooms at any of WeWork's 40+ locations throughout NYC. The arrangement also includes dedicated office space in two NYC WeWork offices – in Lower Manhattan and Chelsea – as well as drop-in access to WeWork locations in several other cities.

IBM agreed to a membership deal for all desks within WeWork's 88 University Place in NYC – the first transaction involving a single tenant taking an entire WeWork space. IBM moved 600 employees into the 70,000-square-foot space from a mix of existing offices throughout the city, as well as former work-from-home staff that are being drawn back into the office due to the company's push for more face-to-face collaboration. WeWork operates the space via its own platform and Community Managers and leverage its technology for tasks such as security check-ins, service requests and conference room reservations.

Facebook is one of many Silicon Valley-based tech companies that have opened offices in lower-cost markets. Facebook's expansion into Austin started in 2010 with a seven-person office, and has grown to more than 900 employees in a range of sales, marketing and operations roles. Facebook originally committed to 150 desks in WeWork's 600 Congress Avenue location, and in 2017, Facebook took a full floor within an Austin-based WeWork to accommodate a 400-person contract workforce – employees assigned to 90-day projects. The short lease terms allow Facebook to synchronize its footprint based on the needs of its agile business.

Corporate case studies

Salesforce established a partnership with WeWork to rent desks within their offices and market their services to WeWork's 400,000+ global members. The arrangement included prominent placement within WeWork's "Services Store," an online marketplace for WeWork members that provide access and discounts to a variety of business and personal services, including software, health insurance and accounting, legal and payroll platforms. Salesforce was drawn to WeWork due to its high concentration of small and mid-size business prospects.

Baltimore-based T. Rowe Price faced recruiting challenges in Maryland when attempting to launch its new FinTech division. The company chose a location in Midtown South (NYC), adjacent to a young and tech-savvy workforce demographic, and used flexible space as it ramped up hiring. As the division scaled, T. Rowe Price was able to expand within the space and take additional desks to accommodate its growing space needs. When the division reached maturity, the company explored the market for a traditional long-term lease to house its new workforce.

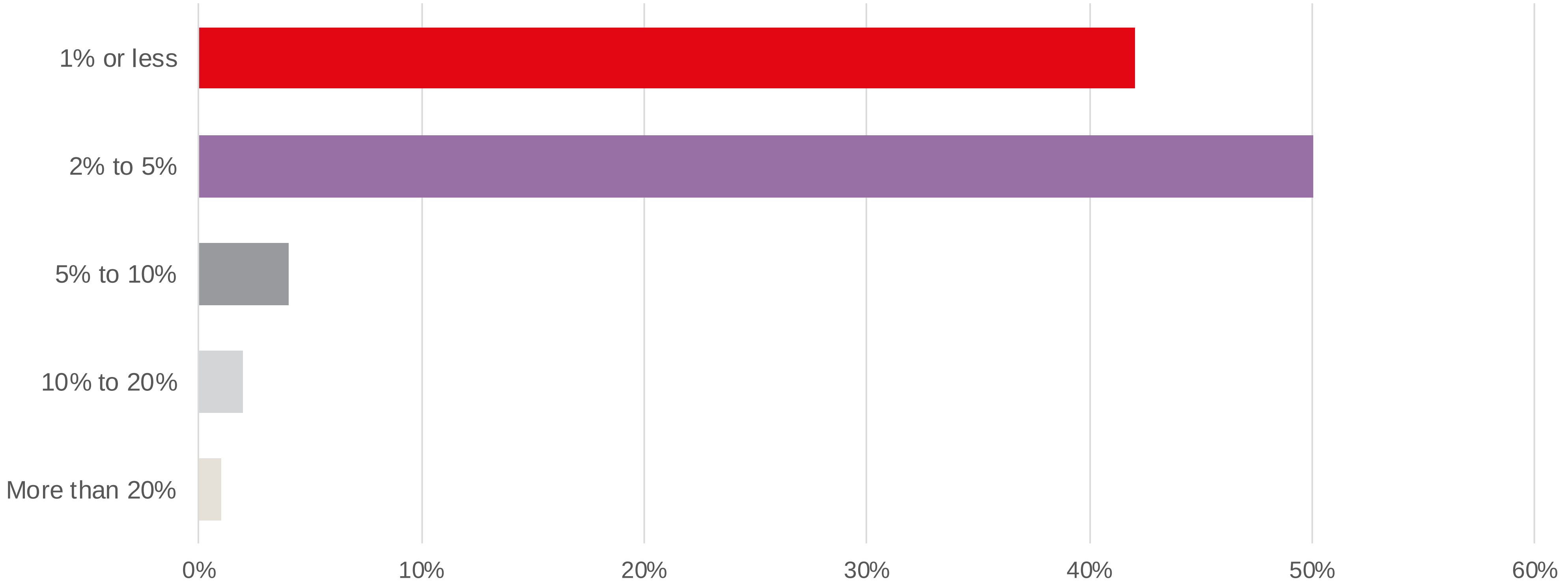
Confidential e-commerce company

A leading e-commerce company spent years building a large presence in Cambridge, Mass., near MIT, and in early 2017 planted its flag in Boston by leasing two full floors within a WeWork located at 31 St. James Avenue in the Back Bay. The WeWork arrangement is intended to serve as swing space for the company as it hunts for 200,000+ square feet of office space in downtown Boston. The company intends to expand up to 1 million square feet in Boston by 2025 and has used WeWork spaces in other markets to serve as swing space as it ramps up hiring and commits to conventional long-term leases.

Deutsche Bank placed its new innovation group – called DB Labs – inside a New York-based WeWork. The business unit seeks to collaborate with tech startups to help uncover and introduce new technologies and solutions to the bank. DB Labs launched in March 2017 and was strategically placed away from the company's main office at 60 Wall Street "to allow our employees to fully remove themselves from their day-to-day work and really focus on 'out-of-the-box' thinking."

Despite rapid growth, current corporate adoption levels of flexible space remain modest

Adoption levels (% of current portfolio in flexible facilities)



Source: JLL Research occupier survey. N = 40

Flexible space breakeven pricing

Adjusted for equivalent space density

Brokered transaction metrics

Average term: 8.2 months

Term range: 1 - 72 months

Average # of desks: 30

Range # of desks: 1 - 2,129

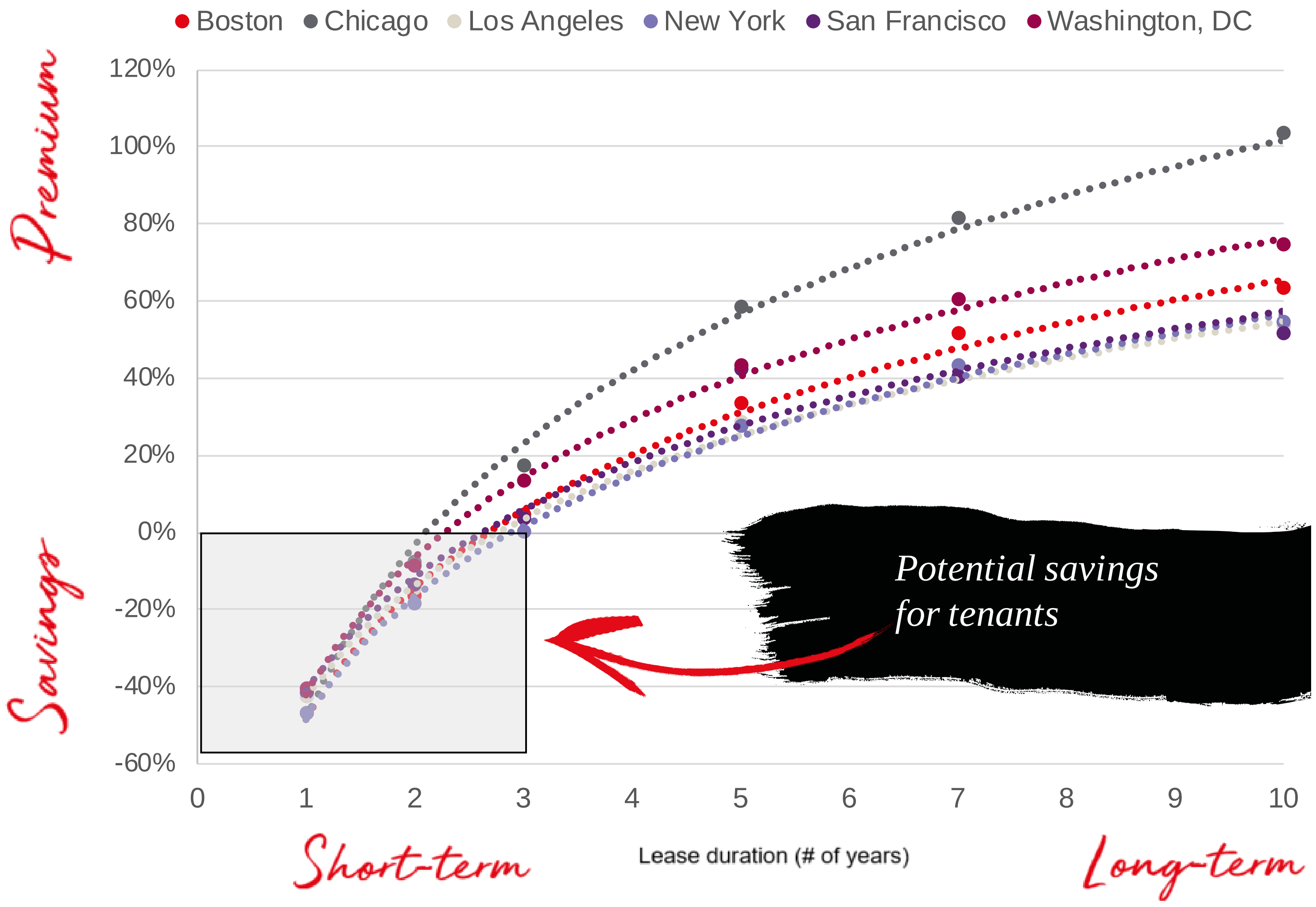
Seating density: 97 s.f. per desk

All-inclusive pricing

Range: $50 - $150 p.s.f.

Avg corporate rate: $136.80 p.s.f.

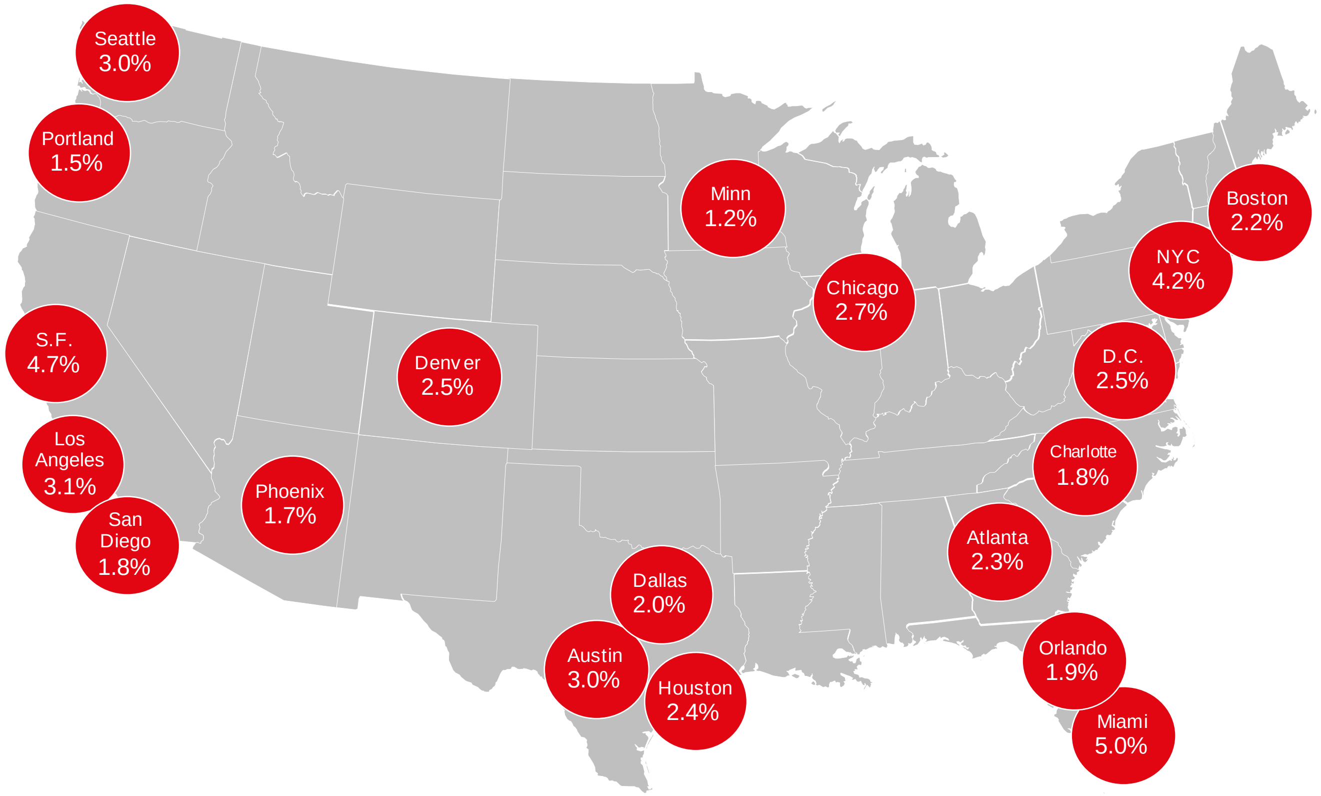
Methodology: hypothetical coworking vs. traditional lease for 15,000 s.f. (155 desks), adjusting for prevailing market average concession packages for each market benchmarked against lease duration. Build-out costs, FF&E, IT/AV backbone is amortized over lease term, and estimated at $175/s.f. Considerations for coworking services, including consumables, front desk and facilities staff, cleaning and utilities have been added to the traditional lease model at $12.50 p.s.f., consistent with promotional materials and estimates from leading coworking operators. Assumes space density of 96.8 s.f. per employee.



Supply

Sensitivity analysis by market exposure to coworking

Flexible space share of existing inventory (%)



Flexible space inventory (s.f.)

New York	19,011,670
Chicago	6,742,123
Washington, DC	5,953,901
Los Angeles	5,778,371
Dallas	4,529,782
Houston	4,062,254
San Francisco	3,732,289
Boston	3,708,546
Atlanta	3,429,646
Seattle-Bellevue	3,015,271
Denver	2,852,121
Silicon Valley	2,723,070
Miami	1,904,434
Orange County	1,896,515
Philadelphia	1,828,597
Austin	1,698,721
Phoenix	1,560,954
San Diego	1,414,331
Raleigh-Durham	1,182,593
Minneapolis	1,014,722

Operator landscape and underlying financial structures

Majority of existing flexible space supply

Lease	Self-Perform	Management Agreement
Traditional long-term lease with a third-party operator	Landlords build and manage space themselves	Fee-based partnership with revenue-share incentives
Offers ease of execution but less control of customer relationship and increased counterparty credit risk.	*Labor-intensive with high upfront capex for landlords but greater risk/reward.*	*Resembles hotel models in which third-party operators build and manage spaces.*
Regus, wework, SPACES., SERVCORP	studio, WORKSTYLE collaborative spaces, HEYDAY, Wo. WaveOffice By Carr Properties, FLEX by bxp, Space+ by Washington REIT	INDUSTRIOUS, JLL Flex Respond. Reset. Reimagine. JLL
Tenant	**Owner-Operator**	**Partner**

But the biggest shift is here

Independent operators will help elevate the tenant experience

Shared conferencing


Hospitality style lobbies

Communal gathering spaces


Flexible-term space and hot desks


Curated events


Health and wellness programs

Pros and cons of management agreements

Why **should** landlords sign a management agreement?

- Greater control of the relationship with the operator and end consumer
- The operator may be unwilling to sign a traditional lease
- Potential for higher NOI
- Coworking is an execution-sensitive business and it’s easier to partner with an established operator than self-perform
- Flexible space may be viewed as a building amenity and help attract and retain tenants and/or drive higher rents
- Potential to incubate coworking members into prime long-term tenants
- The space may be challenging to lease otherwise

Why **shouldn’t** landlords sign a management agreement?

- High upfront capital expenses
- Variable NOI
- More complicated underwriting
- Potentially negative impact on building valuations and liquidity
- Higher seating density may place strain on building infrastructure, exacerbate elevator and security wait times, reduce parking capacity, create more wear-and-tear on systems, etc.
- Flexible space may be negatively viewed by some tenants (e.g., law firms, regulated industries and security-conscious users) due to wide variety of clientele

Capital markets

Impact on building valuation

1

A high concentration of flexible space within a building may impair value

Although limited exposure to flexible space operators may be seen as benign (and potentially enhance downstream NOI), when exceeding approximately 17% of total rentable building area, flexible space tenancies have historically created a cap rate premium (i.e. lower associated asset value) relative to comparable assets involving high-credit tenants in more conventional segments of the economy.

2

The degree of impact depends on the amount of space the flexible space tenant occupies

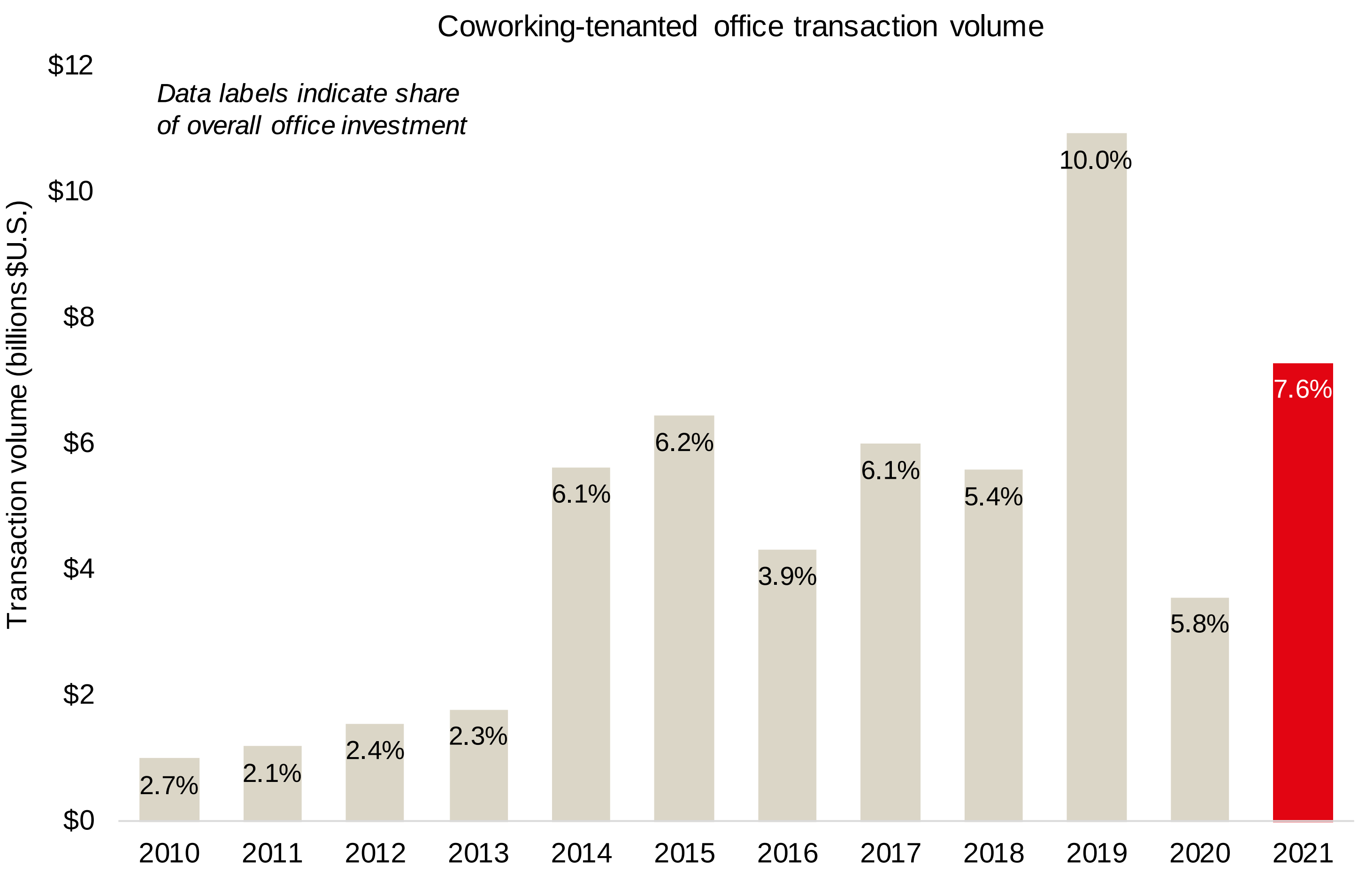
Impact on valuations largely depends on the amount of space the coworking tenant is occupying as a share of total building area. Although it generally varies by market and by asset, the relationship between the amount of space a coworking operator is occupying and the cap rate premium over comparable stabilized rates is roughly linear. Effects may be partially neutralized by letters of credit and corporate guarantees.

3

The shift toward management agreements will make underwriting even more complex

Given the pandemic and systemic challenges within the industry, many coworking leases are being converted to management agreements, which involve revenue sharing and variable NOI. This nascent deal structure, combined with the broader disruption in tenant demand due to COVID, will make modeling future cash flows more challenging. More transparency in operating performance will be necessary to build confidence in pro-formas and underwriting assumptions.

Momentum is improving for coworking-leased assets amid broader improvement in liquidity

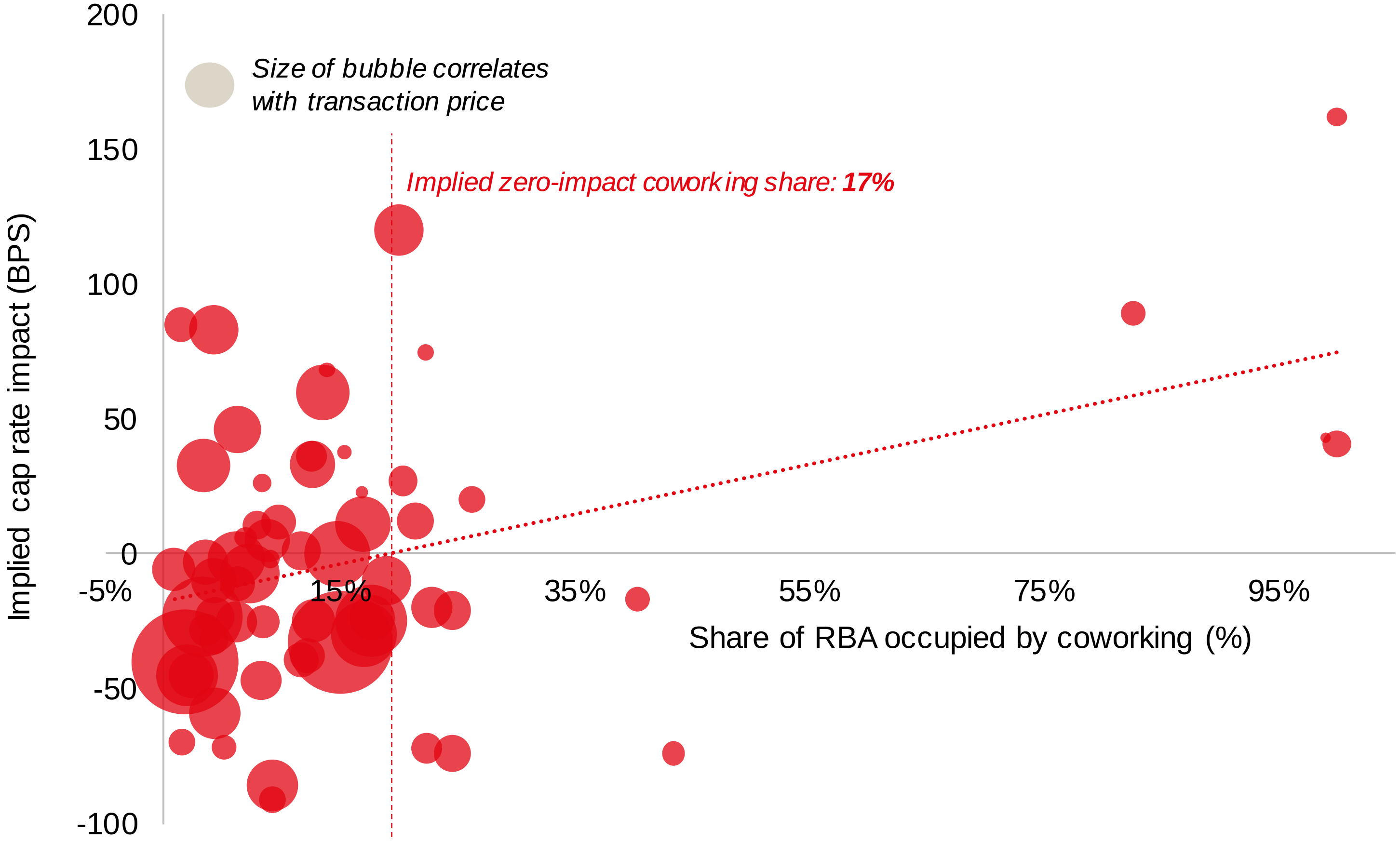


Year	Sales with coworking	Total coworking RBA sold	Average share of asset
2010	5	107,566	4.2%
2011	10	262,759	6.0%
2012	18	508,910	10.9%
2013	23	414,011	6.0%
2014	34	1,118,489	7.0%
2015	44	1,119,534	5.8%
2016	43	1,209,743	10.4%
2017	66	2,148,664	13.1%
2018	58	1,513,190	9.0%
2019	76	2,545,696	10.2%
2020	36	1,009,465	10.0%
2021	**70**	**1,921,837**	**8.9%**
2021 vs. 2017-2019	**+5.0%**	**-7.1%**	**-1.8%**

Source: JLL Research, Real Capital Analytics (single-asset transactions larger than $5.0m)

Prior to crisis, some assets with small coworking exposure achieved premium pricing

Coworking valuation impact compared to peer trades



Number of transactions

Coworking Share of RBA	Positive Implied Impact	Negative Implied Impact	Average Implied Impact (BPS)
1-14%	25	12	-9 BPS
15-20%	5	5	+9 BPS
21-100%	6	9	+13 BPS
Transactions over $100.0 M	***23***	***10***	***-8 BPS***
Transactions under $100.0 M	***13***	***16***	***+7 BPS***

Prior to the pandemic, comparisons of trades of assets with coworking tenancy to peer trades suggested that office buildings with small shares of coworking (less than 15%) were likely to see a value premium relative to peer assets when brought to market. Post-pandemic transactions demonstrate that capital continues to view coworking tenancy through this lens.

Source: JLL Research, Real Capital Analytics (single-asset transactions larger than $5.0 million)
Note: Cap rate impact benchmarked to peer asset that traded in same year, based on submarket and asset profile. Sales unable to be benchmarked to a peer have been omitted.

Pre-COVID coworking-tenanted office transactions

Sale date	Market	Address	Operator	Coworking share of RBA (%)	Total occupancy at sale (%)	Price	Price PSF	In Place Cap Rate	Buyer	Seller
5/1/2019	San Francisco	655 Montgomery St	WeWork	20%	83%	$191,500,000	$680	NA	Beacon Capital Partners	Black Creek Diversified Fund
12/19/2018	Seattle	500 Yale Ave N	WeWork	100%	100%	$52,300,000	$733	NA	Clarion Partners	Trinity Real Estate
12/1/2018	New York	311 W 43rd St	WeWork	35%	91%	$130,000,000	$824	NA	DivcoWest	William Macklowe, Principal RE
11/26/2018	Los Angeles	100 W Broadway	WeWork	16%	89%	$60,500,000	$288	5.7%	Redwood Partners	Ocean West, Singerman Real Estate
11/1/2018	Chicago	125 S Clark St	WeWork	19%	95%	$194,600,000	$383	5.8%	HausInvest	Blue Star, Wolcott Group
11/1/2018	Denver	2420 17th St	WeWork	65%	86%	$45,500,000	$579	5.0%	BlackRock	Soma Capital, CenterSquare
9/1/2018	Nashville	150 4th Ave N	WeWork	16%	90%	$140,000,000	$341	5.5%	Unico Properties	AEW
8/21/2018	Boston	501 Boylston	WeWork	19%	100%	$582,900,000	$959	NA	Norges	TIAA-CREF
8/15/1018	Seattle	501 Eastlake Ave E	WeWork	20%	79%	$58,746,000	$568	4.6%	Lincoln Property Company	LBA Realty
8/15/2018	Seattle	1730 Minor Ave	WeWork	22%	63%	$230,786,788	$621	5.9%	Beacon Capital Partners	CBRE Global Investors
6/1/2018	Charlotte	615 S College St	WeWork	14%	84%	$222,000,000	$586	6.0%	CBRE Global Investors	Portman Holdings, PCCP
1/30/2018	Chicago	210-222 N Greet St	WeWork	100%	100%	$42,790,000	$505	5.8%	Randy Rissman	Shapack Development, Shorenstein
12/22/2017	Los Angeles	520 Broadway	WeWork	36%	79%	$117,000,000	$1,035	3.9%	Olive Hill Group	Tishman Speyer
12/11/2017	Silicon Valley	75 E Santa Clara St	WeWork	18%	65%	$127,700,000	$309	3.1%	Brookfield AM	Harvest Properties, Invesco
12/1/2017	Portland	220 NW 8th Ave	WeWork	100%	100%	$30,000,000	$448	6.8%	Vista Investment Group	Eastern Real Estate LLC
10/1/2017	Los Angeles	21250 Hawthorne Blvd	Barrister Executive Suites	14%	82%	$109,900,000	$376	5.6%	Related Companies	Stream Realty
8/25/2017	San Diego	600 B St	WeWork	24%	90%	$109,500,000	$305	5.6%	Rockwood Capital	Lincoln Property Co, Angelo, Gordon
8/24/2017	Los Angeles	400 N Continental Blvd	Regus	18%	91%	$86,870,500	$363	3.8%	Starwood Capital, Artisan Realty Advisors	DivcoWest
5/24/2017	New York City	85 Broad St	WeWork	21%	87%	$652,000,000	$593	3.9%	Caisse de Depot, Callahan Cap Prtnrs	Beacon Capital Partners, MetLife
5/2/2017	Denver	1550 Wewatta St	WeWork	32%	98%	$154,000,000	$678	5.0%	Metzler Real Estate, Union Investment	Starwood Capital, East West Partners
4/20/2017	San Francisco	1161 Mission Street	WeWork	65%	90%	$42,000,000	$611	NA	Sino-Ocean Land	Gaw Capital
3/30/2017	New York City	81 Prospect Street	WeWork	95%	94%	$45,526,460	$532	NA	Kushner Companies, RFR Realty, LIVWRK	Invesco
1/19/2017	Northern Virginia	13800 Coppermine Rd	Regus	48%	87%	$14,600,000	$156	10.0%	The Pinkard Group	Brickman Associates
1/6/2017	District of Columbia	1875 K St NW	WeWork	18%	97%	$151,404,869	$797	5.1%	Carr Properties	Blackstone
12/23/2016	Oakland-East Bay	2015 Shattuck Ave	WeWork	85%	100%	$22,333,333	$452	6.3%	Lionstone Investments	Soma Capital Partners
12/14/2016	Austin	11801 Domain Blvd	WeWork	41%	100%	$24,290,822	$422	NA	TIER REIT	Shorenstein
11/4/2016	Los Angeles	12655 W Jefferson Blvd	WeWork	77%	100%	$80,000,000	$794	NA	Mani Brothers	Hudson Pacific Props
8/25/2016	Chicago	1 N State	MakeOffices	10%	55%	$79,750,000	$152	NA	Shorenstein	FD Stonewater
8/19/2016	San Francisco	123 Mission Street	RocketSpace	16%	95%	$255,000,000	$738	3.2%	HNA Grp	Great Eagle Hldg Ltd
6/16/2016	Austin	701 Brazos St	Capital Factory	15%	91%	$130,000,000	$378	6.1%	Sidra Capital	Lincoln Property Co
3/11/2016	Austin	3300 N Interstate 35	WeWork	30%	94%	$60,125,000	$294	6.3%	Lionstone Investments, Hermes Investment Management	Spear Street Capital,
2/22/2016	New York City	142 W 57th St	WeWork	38%	85%	$160,652,800	$664	NA	GreenOak, Mitsubishi	BlackRock, L&L Holding
2/11/2016	San Francisco	995 Market St	WeWork	93%	100%	$62,000,000	$681	5.2%	Bridgeton Holdings	Long Market Prop Ptnrs, Columbia Pacific
1/27/2016	Boston	675 West Kendall Street	Mass Innovation Labs	41%	70%	$280,477,905	$926	NA	Blackstone	BioMed Realty Trust
12/28/2015	Boston	745 Atlantic Ave	WeWork	73%	100%	$59,006,881	$616	NA	Alony Hetz	OMERS
12/23/2015	New York City	195 Montague Street	WeWork	22%	100%	$20,500,000	$641	NA	The Treeline Cos, Long Wharf RE Ptnrs, KABR Group	Santander
9/30/2015	New York City	315 W 36th Street	WeWork	90%	100%	$40,825,000	$779	NA	Walter & Samuels	SL Green
3/25/2015	Los Angeles	520 Broadway	WeWork	36%	93%	$91,650,000	$811	4.3%	Tishman Speyer	Vornado
10/15/2014	Seattle-Bellevue	500 Yale Avenue N	WeWork	76%	100%	$35,997,630	$504	NA	Trinity Real Estate	LBA Realty
8/26/2014	New York City	222 Broadway	WeWork	16%	95%	$476,900,000	$661	NA	Deutsche AWM - US	Beacon Capital Partners, L&L Holding
8/20/2014	New York City	175 Varick St	WeWork	41%	100%	$58,700,000	$360	NA	Tishman Speyer	AEW Global
8/15/2014	Boston	51 Melcher St	WeWork	51%	100%	$52,810,000	$560	5.0%	Zurich Financial	Synergy RE Services, Independencia SA

Post-COVID coworking-tenanted office transactions

Sale Date	Market CBD/Suburbs	Property name/ Address	Built/ Renovated	RBA	Coworking Tenant	Share of RBA	Price ($M)	Price PSF	Cap Rate	Occ.	Buyer(s)	Seller(s)
12/14/21	New York - CBD	360 Park Ave S (Leasehold)	1913/2003	451,800	Knotel	10%	$300.00	$664		100%	Boston Properties	Enterprise Asset Mgmt
12/09/21	Dallas - Suburbs	Terraces at Douglas Center	2017	171,583	WeWork	29%	$133.50	$778		99%	City Office REIT	Pegasus Ablon Props, Lionstone
11/15/21	Chicago - Suburbs	Corporate 500 Center	1986	655,872	Regus	12%	$178.25	$272		90%	Opal Holdings	Barings
11/15/21	Washington, DC - Suburbs	Three Ballston Plaza	1990	304,133	Intelligent Office	2%	$118.00	$388	5.08%		Monday Properties	AEW
11/04/21	Los Angeles - Non-CBD	3000 South Robertson Boulevard	1986/2017	107,195	WeWork	26%	$55.95	$522	5.30%		Pendulum Property Partners, Long Wharf Capital	Watt Cos, Edge Principal
11/02/21	Philadelphia - Suburbs	Westlakes Office Park	1986/2019	444,350	Regus	25%	$135.00	$304		92%	Accesso Partners	Keystone Property
10/22/21	Atlanta - CBD	999 Peachtree	1987	621,217	CommonGrounds	8%	$223.90	$360	6.50%		Piedmont REIT	Franklin Street Props
10/01/21	Los Angeles - Non-CBD	Summit at Valencia	1999/2004	177,403	Barrister Executive Suites	28%	$22.85	$129	6.84%	66%	Harbor Associates, Bascom Group	Great Point Investors
09/30/21	Washington, DC - CBD	655 New York Avenue Northwest	2018	768,000	WeWork	18%	$388.57	$1,033	4.75%	92%	Rockwood Capital, Meritz Financial Group	Brookfield AM, Douglas Development
09/27/21	Denver - Suburbs	Civica Cherry Creek	2017	117,235	Spaces	26%	$108.00	$921	4.60%	96%	MetLife	MMGL Corp, JP Morgan
08/26/21	Miami - Suburbs	Meridian Center	1957/2019	92,664	Regus	21%	$49.50	$534	4.00%	81%	Ophira Cukierman; Greenacres Management	Ivy Realty
08/16/21	Nashville - CBD	18th & Chet	2019	136,006	WeWork	23%	$78.50	$577		82%	AEW	Hall Emery
08/13/21	Oakland - CBD	1111 Broadway	1990	550,953	WeWork	15%	$327.50	$594	5.00%	91%	Swift Realty Partners	Regents of U California
07/29/21	Charlotte - CBD	One South at the Plaza	1977	891,000	Industrious Office	2%	$271.50	$305	3.76%	58%	Tourmaline, Monarch Alternative Cap	Cousins Properties
07/27/21	Orange County - Suburbs	City Tower	1988/2019	435,177	Spaces	9%	$150.50	$346	7.05%	90%	Opal Holdings	KBS Strategic Opportunity REIT
07/21/21	Charleston - CBD	170 Meeting Street	1984/2000	30,000	Regus	50%	$11.43	$381		100%	Montford Group, Opterra Capital LLC	Palmetto Commercial Properties
07/12/21	Miami - Suburbs	Doral Concourse	2001/2018	240,669	Pipeline Workspace	5%	$96.00	$399	6.11%	95%	MG3 Developer Group	DRA Advisors
06/30/21	New York - CBD	Americas Tower	1992/2016	974,562	Regus	3%	$417.10	$882	4.50%	93%	CalSTRS, Silverstein Properties	UBS
06/30/21	Miami - CBD	One Biscayne Tower	1972/2006	691,783	Synergy Workspaces	4%	$225.00	$325	4.80%	65%	CP Group, Rialto Capital Mgmt	Dow Chemical Company
06/24/21	Atlanta - Suburbs	Piedmont Center 5-8	1980/1998	525,307	Regus	4%	$106.00	$202	5.00%		The Ardent Companies	Granite Properties
05/20/21	Orlando - CBD	Wells Fargo Tower	1983/2003	275,000	Pipeline	4%	$62.75	$228	6.68%	87%	Banyan Street Capital, DRA Advisors	Steelbridge Capital
05/12/21	Austin - CBD	100 Congress	1987/2014	411,536	Regus	3%	$315.00	$765	5.25%	95%	Carr Properties, Alony Hetz	Invesco Real Estate, MetLife
03/31/21	Los Angeles - Non-CBD	The Park Calabasas	1986/2017	227,741	Regus	8%	$79.00	$347	6.50%	92%	Gemdale Corp	Rising Realty Partners, Fortress
02/28/21	Denver - Suburbs	Signature Center (Leasehold)	2007	185,920	Office Evolution	4%	$30.46	$164	7.75%	100%	Vista Investment Group	Integrated Properties
02/05/21	Denver - Suburbs	Hines Tech Center	1998/2013	314,000	Regus	8%	$74.25	$236	5.80%	100%	Miller Global Props, Principal Financial	MetLife
02/05/21	Phoenix - Suburbs	Raintree Corporate Center I	2004	149,424	Regus	11%	$34.00	$228		91%	Held Properties	ViaWest Properties, Contrarian Cap Mgmt
01/22/21	Dallas - Suburbs	Sherry Lane Place	1983/2020	297,838	Regus	6%	$132.00	$443	5.00%	80%	CBRE Investment Mgmt	JP Morgan
01/20/21	Philadelphia - Suburbs	150 Monument Rd	1979/2020	125,783	Regus	9%	$17.45	$139	7.26%	90%	Moshe Davidovics, FLD Group	Keystone Property
01/15/21	West Palm Beach - Suburbs	Phillips Point	1985/2020	448,885	Regus	4%	$281.89	$628	6.30%	91%	Related Companies	AEW
01/15/21	Charleston - Suburbs	201 Sigma Drive	2014	85,050	Charleston Executive Offices	12%	$26.13	$307	8.82%		Jack Lingo	Westport Capital Partners LLC
01/14/21	Northern NJ - Suburbs	Overlook Center 100	1988/2012	158,200	Regus	18%	$38.00	$240		91%	Cali Futures LLC	Veris Residential - fmr Mack-Realty Corp
12/30/20	Charleston - Suburbs	Portside at Ferry Wharf	2019	114,903	Serendipity Labs	26%	$48.39	$421		100%	Susquehanna Holdings	Holder Properties
12/23/20	Denver - Suburbs	Vario (Office 1)	1958/2020	63,474	CTRL Collective	55%	$37.61	$592	5.50%		Walton Street Capital	Mass Equities Inc, AECOM Capital
12/15/20	Los Angeles - CBD	NineFifteen	1980/2017	376,000	CommonGrounds	12%	$196.00	$521		90%	DekaBank	Lincoln Property Co, Rockwood Capital
09/30/20	Denver - Suburbs	Wells Fargo Center	1983/2016	1,219,060	WeWork	10%	$100.00	$82	6.40%	70%	Brookfield Prop Prtnrs	Beacon Capital Partners
07/01/20	Los Angeles - Non-CBD	Cerritos Center Court	2002/2018	170,977	Regus	9%	$44.00	$257	7.60%	98%	Nome Ventures	Blackstone
06/29/20	Silicon Valley - Suburbs	237 @ First	2017/2019	368,702	Regus	12%	$184.00	$499	4.00%	65%	CBRE Investment Mgmt	South Bay Development, PCCP
06/17/20	Seattle - CBD	Qualtrics Tower	2019	689,500	Spaces	13%	$668.80	$1,021	4.60%	98%	Hana Financial Group	Skanska AB
04/17/20	Washington, DC - CBD	1509 16th Street Northwest	1909/2007	32,000	MakeOffices	100%	$24.00	$750		100%	Vital Voices Global Partnership Inc	MRP Realty, Uber Offices LLC

WeWork situation overview

WeWork disrupted the real estate industry in ways that will reverberate for years to come. Emerging as the largest private-sector tenant in several gateway cities (including New York and London), WeWork helped make 'coworking' mainstream as it built unprecedented scale, pushed the limits of density tolerance and elevated tenant expectations for speed, agility and services.

WeWork relies upon rent arbitrage (long-term liabilities and short-term income streams) to ensure positive cash flow. WeWork's credit ratings are reflective of this inherent risk (Moody's: Caa1; S&P: B-; Fitch: CCC+, all indicative of 5+ tranches into sub-investment grade status). Together with concerns over corporate governance and a torrid pace of expansion that left the company cash-constrained, market sentiment turned sour on the company shortly after its S-1 filing on August 14, 2019, and has fluctuated widely throughout the coronavirus pandemic. WeWork's occupancy reportedly declined from 79% to 64% in the 6 months following the initial outbreak and stood at just 47% by year-end 2020, before rebounding to 60% as of its latest securities filings in Q3 2021.

WeWork closed approximately 100 locations ahead of its launch as a public company on March 2021 via the BowX SPAC to better position itself to become cash-flow positive. Although the company has trimmed its workforce by 70%, streamlined its portfolio and negotiated rent reductions in some locations, it has yet to record a profit. As of mid-year 2021, the company reported $1.3 billion in losses. WeWork disclosed a net loss of $3.2 billion in 2020 – including $1.2 billion of reductions in SG&A – an improvement from the $3.5-billion loss recorded in 2019.

Although we expect continued 'headline risk' to deter some buyers of WeWork-leased assets, impact to pricing and liquidity will ultimately be a more nuanced situation, driven by securitization of each deal, location, demand drivers, building attributes and a confluence of other asset-specific factors.

WeWork credit ratings

Moody's	S&P	Fitch	Rating description	
Long-term	**Long-term**	**Long-term**		
Aaa	AAA	AAA	Prime	Investment-grade
Aa1	AA+	AA+	High grade	
Aa2	AA	AA		
Aa3	AA−	AA−		
A1	A+	A+	Upper medium grade	
A2	A	A		
A3	A−	A−		
Baa1	BBB+	BBB+	Lower medium grade	
Baa2	BBB	BBB		
Baa3	BBB−	BBB−		
Ba1	BB+	BB+	Non-investment grade speculative	Non-investment grade AKA high-yield bonds AKA junk bonds
Ba2	BB	BB		
Ba3	BB−	BB−		
B1	B+	B+	Highly speculative	
B2	B	B		
B3	B− wework **Downgraded Sept. 2019*	B−		
Caa1 wework **Pulled rating in Sept. 2018*	CCC+	CCC	Substantial risks	
Caa2	CCC	wework CC **Downgraded Oct. 2020*	Extremely speculative	
Caa3	CCC−		Default imminent with little prospect for recovery	
Ca	CC			
	C			
C	D	DDD	In default	

Outlook

Real estate reimagined: what does the future hold?

- Pre-builds and reconfigurable spaces become more commonplace
- Shift to more consumption-based pricing
- Reduced friction in the transaction process
- More management agreements
- More complicated underwriting
- Real estate shifts from a commodity to a consumer product

The buying experience for office space is changing

JLL

$8,000 per desk.

Move in next week.

7,468-s.f. lease for $35.87 per s.f., with 2.5% annual escalations, 2 months free, and $75 of TI, but the total cost and schedule of build-out are still unknown, plus negotiable options to expand that come at an unknown cost, and the tenant has to cover some of the utilities, and pay their own portion of the property taxes, which are dependent on the next city budget, and we're in the process of remeasuring the building and determining the share of pass-through expenses.

Once our lawyers iron out the details of our 98-page lease, you can interview architects and shop around for furniture vendors, wait a few months for permitting and inspections, wire the space for technology and take occupancy in, maybe, 9-12 months.

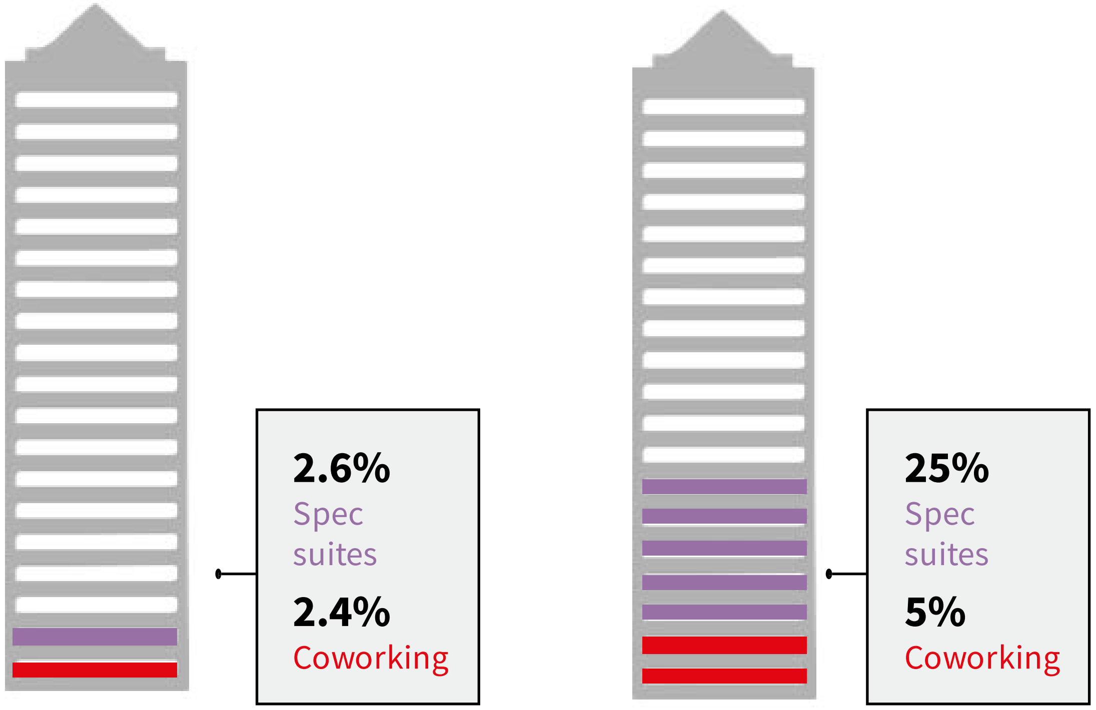
wework

Conventional landlord

The evolution of office space

Today

2030



5%
“flexible”

30%
“flexible”

19%
target allocation of flexible space within Fortune 500 corporate portfolios

41%
of tenants expect to expand use of flex space as part of post-pandemic workplace strategy

93%
of JLL’s enterprise clients use flex space within their current portfolio

#1
greatest disruption landlords cite is the expansion of flex models

* 2.4% of current U.S. office inventory is controlled by independent, third-party flexible office providers (spanning all operator types, from traditional executive office suites to coworking to incubators). Approximately 3% of inventory is based in other flexible formats such as communal workspaces and spec suites that are available for terms < 3 years.

Shifting trends in flexible space

Increase in demand for short-term, pre-built spaces as tenants seek greater agility

Slowing pace of coworking center closures and consolidations

Space redesign emphasizing 'de-densification' and more s.f. per person

Lease restructurings and conversion of leases into management agreements

Landlords backfilling spaces by changing operators or self-performing

Technology integration to better track and manage occupancy and improve UX

Conclusion

Companies of all sizes have realized the potential benefits of leveraging flexible space arrangements to better manage their liquid workforce and optimize their real estate portfolios. Strong brand awareness, aggressive adoption and forecasts of widespread future use will continue to drive the flexible space sector forward for years to come.

Although WeWork's expansion helped the flexible space sector grow at a rate 22x faster than the conventional leased office market, that pace of expansion will moderate as landlords seek to cap exposure to flex space at a certain threshold and establish more collaborate partnerships with operators.

Tenant expectations have been reset in a way that will fundamentally change the way office space is delivered and consumed in the future. Real estate will retain many of the key elements that helped fuel this disruption. Space will be *fast*, *flexible* and *fun*. Pre-built spaces, agile design, technology integration, flexible lease terms and hospitality services will become the norm and continue to transform commercial real estate from a commodity to a consumer product.

Thank You

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