By Stuart Eisenberg

The rapid rise of coworking companies like WeWork have taken the office real estate market by storm. Coworking spaces have been lauded for their innovative design and luxury amenities and have surged in popularity over the past decade. After years of rapid growth, WeWork is now the single largest office tenant in Manhattan—occupying over 5.3 million square feet of space. Traditional landlords don't need to offer coworking solutions of their own to compete with companies like WeWork, but there are aspects of the coworking business model that REITs and other office space owners would be smart to understand and potentially use to evolve their own offerings.

Despite the buzz, coworking spaces comprise less than 5 percent of the total office space market today, according to a recent report from JLL. While coworking does address many tenant demands and offers a competitive alternative to a traditional long-term commitment, office REITs shouldn't panic. Rather, they should consider how adopting some of the front and back-end strengths of coworking companies might help them hone their competitive edge in the market.

CONVENIENCE VS. FLASH

Shared office space is not a new concept. Regus, a major provider of coworking and flexible office spaces, was founded in 1989. The secret to the modern coworking craze, however, is a hyper focus on convenience. Coworking companies' greatest value propositions are the flexibility, collaborative space and amenities they can offer to tenants—along with time and effort saved to locate and occupy space. Coworking companies have been praised for their innovative design concepts and service-oriented mentality. Free food and beverages, organized networking and entertainment events and everyday access to like-minded entrepreneurs are sold as part of the modern coworking package. These benefits are key for attracting young and talented workers—especially in a tight labor market—and traditional landlords are getting the hint. Already some are working to offer WeWork-style amenities for long-term tenants by renovating previously underutilized areas to build everything from new communal spaces to gyms and swimming pools.
RETHINKING THE LONG-TERM LEASE

Office REITs need not fear displacement by coworking, but they would be smart to consider evolving their businesses to incorporate some aspects of the coworking model—including a willingness to lease spaces for shorter periods of time. One of coworking companies’ most significant impacts is changing tenant expectations for their landlords and leased spaces. Coworking companies’ popularization of flexible leasing has been compounded by the impact of the new lease accounting standard. As I wrote earlier this year, the new lease accounting standard gives tenants an added incentive to demand shorter leases. REITs that don’t adapt their businesses or start addressing tenant demands may lose a competitive edge, if not to coworking companies, then to other traditional landlords that do.

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