



INSIGHTS FROM THE BDO REAL ESTATE & CONSTRUCTION PRACTICE

COWORKING'S LESSONS FOR OFFICE REITS

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.



Stuart Eisenberg is a partner and national leader of BDO's Real Estate & Construction practice. He can be reached at seisenberg@bdo.com.

BDO REAL ESTATE & CONSTRUCTION PRACTICE

BDO's Real Estate and Construction practice consists of multi-disciplined professionals who are well-versed in compliance and consulting matters. Our professionals have many years of experience in financial reporting and accounting, tax and auditing issues and are continually updating their knowledge and, therefore, are dedicated to giving timely and accurate advice.

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 80,000 people working out of nearly 1,600 offices across 162 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2019 BDO USA, LLP. All rights reserved.

CONTACT

STUART EISENBERG

Real Estate and Construction Practice Leader
212-885-8431 / seisenberg@bdo.com

IAN SHAPIRO

Real Estate and Construction Practice
Co-Leader
305-420-8052 / ishapiro@bdo.com