Coworking Centers Take It to the Next Level

A confluence of technological, demographic and cultural influences has fueled rapid transformation in the workplace. The Internet, social media and Wi-Fi have profoundly affected workplace communications as well as workplace flexibility. Reliance on this technology has produced a generation of young workers (the millennials, also known as Generation Y and echo boomers) who expect continuous, personal access to information in real time rather than on a prescribed schedule. They increasingly insist on sharing information in an open-sourced, nonhierarchical way. As a result, they expect a workplace with no doors or even walls, no set hours and few professional boundaries. While some corporations have viewed this as untenable, others have seen it as an opportunity to create more economical, collaborative and user-intensive workplaces. And freelancers and entrepreneurs who work outside of traditional companies have viewed it as an opportunity to create coworking centers — entirely new workplaces to serve this generation’s independent workers and small businesses.

As a result of these technological and social forces, within the past five years the coworking concept has emerged to meet the needs of independent innovators and small businesses — and has become the largest of the innovation workplace movements. This highly versatile concept has taken innovative workplaces to the next level by offering a membership-based workplace solution that provides independent workers with both a community and a place where they can focus on productivity. The coworking concept fuses the desk hoteling concept relied upon by management consulting firms for decades with the fitness club membership operational model to bring affordable, amenitized workspace to the public. By offering both dedicated and “free-range” space in a flexible array of membership plans, coworking facilities provide a cost-effective solution that also enhances productivity, collaboration, visibility and commitment to goals. Coworking thus has coalesced around three defining elements not previously seen in this combination in other workplaces: 1) multifunctional working/learning/social space, 2) a mixture of designated and undesignated seating and 3) participation by membership.
Game designer, author, and “fun theorist” Bernard De Koven coined the term “coworking” in 1999 to describe computer-supported collaborative work or “working together as equals”; the term later evolved to refer to a style of work that involves independent activity in a shared working environment, typically an office or workshop. In 2005, programmer Brad Neuberg experimented with coworking within a women’s community center in San Francisco before creating what is commonly believed to be the first dedicated coworking space, the Hat Factory in 2006. As of February 2013, a Deskmag survey reported that there are 781 coworking spaces in the U.S., out of 2,498 worldwide. Worldwide, coworking centers doubled annually between 2006 and 2012.

**Figure 3**

**Coworking Center Growth**
(coworking space numbers as of October for each year except 2012)

![Coworking Center Growth Chart](chart.png)

**Sources:** “DeskMag’s 2nd Global Coworking Survey, 2012,” and “Global Coworking Census: 2013,” Deskwanted
The U.S. leads the world in the number of coworking spaces, but has fallen behind Spain relative to population.\textsuperscript{17} Interestingly, the more coworking spaces that are present in an area, the more profitable the spaces are.\textsuperscript{18} As of October 2012, New York had the most coworking spaces of all cities (73) and San Francisco ranked sixth worldwide at 38.\textsuperscript{19} (By February 2013, however, New York had fallen to second place, behind London.\textsuperscript{20}) In spite of several years of economic weakness, the coworking movement has flourished, and Deskmag reported a 117 percent increase in members and an 83 percent increase in coworking spaces worldwide from February 2012 to February 2013.\textsuperscript{21}

Of all of the innovative workplace concepts, the coworking model has had the greatest influence on the workplace, both through independent applications (dedicated coworking centers) and through its incorporation into existing workplaces, including accelerators, innovation centers and corporations both large and small. Most (79 percent) dedicated coworking facilities are individual, local operations; multisite chains NextSpace, WeWork and other franchises account for less than 10 percent of coworking spaces.\textsuperscript{22} Coworking has grown from its roots in the tech startup ecosystem and spread to the wider worlds of freelancers, telecommuters and corporate travelers.

Now, corporations like State Street Bank are designing internal work units around the coworking model, both operationally and in their methods of space utilization. State Farm Insurance formed Next Door “freemium” coworking centers as a way of helping the company understand the millennial consumer by providing coworking space at no charge. Even some hotels and executive suite players such as Marriott and Regus are entering the coworking space as an extension of their primary operations. Marriott’s Workspace on Demand has liberated some of the hotel chain’s business centers from closet-sized facilities to open, free-range coworking spaces in lobbies as well as rentable meeting rooms, and Starwood is following suit.\textsuperscript{23,24} Regus has brought its executive suites business model forward to include the membership and undedicated seating aspects of coworking.\textsuperscript{25} While these are examples of coworking-style workplaces, they lack the founder-centric and event hub aspects of true coworking centers.

At its core, coworking has coalesced around member participants independently working in a collective environment and sharing resources (including facilities, classes and events).
Formation and Governance. There are four basic types of coworking center founders: 1) startup company owners seeking the company of fellow innovators; 2) individuals or a nucleus of prospective users; 3) intermediary/third-party operators; and 4) property owners. This diversity reflects the flexibility of the coworking model and the wide range of participants it attracts, compared with its predecessor incubators. Most centers are for-profit entities, but others are cooperatives or nonprofit entities. Founding groups and individuals have chosen democratic, hierarchical and hybrid governance structures.

The viability of an independent coworking center varies by type, but most often depends on the reputation of its founders and/or their ability to govern the center and nurture its users. The success of multisite coworking centers often depends on the founders’ operational savvy and their ability to offer the types of programming and/or networking opportunities that users want, as well as their ability to create an identity/brand to which users will bond. A property owner who forms a coworking center must rely primarily on the center’s location and facilities for success, which can be a vulnerability compared to a center with innovation ecosystem founders who participate on-site. However, coworking centers formed when property owners have partnered with an existing tenant or another founder to create coworking space within their buildings, such as Workbar and Industry Lab, have experienced some success. (See the Workbar example in the “Case Profiles” section of this report.)

Founders often find themselves consumed by the operations, financing and governance of their coworking centers, as their roles shift from entrepreneurial guide to property and office management. This often leads to leadership turnover, as founders return to their own innovative pursuits. Effective succession planning makes the difference between survival or dissolution of the group. Groups that plan for stability in advance by setting up clear ownership structures and governance rules have a distinct advantage when any challenges arise, be they the result of leadership, budget shortfalls, faltering membership, loss of tenancy or personnel issues. In the Boston area, Industry Lab made ownership transitions successfully, while Beta House did not continue after losing its space. C4 Workspace in San Antonio closed because membership growth did not keep pace with fixed costs.

Membership is the defining contractual relationship between all coworking centers and their users, which also distinguishes it from prior alternative workplace concepts. Membership models are diverse, but typically differentiate between dedicated and undedicated seating categories. Membership subcategories generally are based upon how much access to undedicated seating a member
is allowed and the degree of privacy offered by the dedicated seating, up to and including enclosed offices. Social memberships that enable individuals to participate in networking activities, classes and special events may be available. Day passes often are available as well. Members may pay an additional fee to use meeting space, mailboxes, phone service, office supplies and printing — or some or all of those services might be included. Studio West in Ithaca, N.Y., offers credits that can be applied to these services. Some centers offer corporations bulk memberships for blocks of designated employees. And some multisite coworking center networks offer members at one center limited access to other centers within the network; NextSpace offers members an add-on “Galactic Membership” that provides 24/7 access to all NextSpace centers and the Impact Hub network offers reciprocity by request.

The Member Wall at NextSpace San Francisco is prominently displayed. This is a typical component of community building in coworking centers.

Photo courtesy of NextSpace
Users. Coworking center members and other users (coworkers) are predominantly freelancers (53 percent), followed by entrepreneurs (14 percent) and small companies (9 percent). Most cited the ability to easily change workplaces as their reason for becoming a coworker, although 62 percent said they had no plans to leave their current coworking center. They reported soft factors relating to community social interactions, networking and atmosphere as their primary selection criteria; more practical considerations — those related to the facilities or their location — were secondary.

The reputation of the founders, the type of programming they generate, the identity they create physically in the space and the parties for which they may become known all contribute to building the user group. Many coworking centers have dedicated community-building staff who execute the center’s programming and networking mission. This mission doubles as marketing for the center, since visitors who attend these events may become future members. The key to success generally is agreed to be the realization that “it’s all about the people.”
Financing. For the most part, independently formed coworking centers rely on “bootstrapping” as their initial financing tool. Their startup funding typically comes from the founders’ own equity — as well as that of their friends and family. As reported in February 2012, the average cost to start a coworking space was between $45,000 and $58,000, depending upon the size of the space. Some coworking centers that have planned to grow into multisite operations, such as Serendipity Labs and NextSpace, have attracted equity investors from their inception.

For independently formed coworking centers, the key to success is incrementally growing, furnishing and equipping the space as membership increases. Some founders have obtained loans from the U.S. Small Business Administration to get their coworking centers off the ground. Once a center is up and running, founders and operators have succeeded in attracting corporate sponsors to do everything from providing the center with products (e.g., coffee, snacks, furniture and equipment) to offering blocks of memberships for the sponsor’s employees and hosting social and educational events. Increasingly, coworking centers will reflect the diversity of the innovative workplace, including corporate, freelance and small business startup users, and that in turn will be reflected in their financing and tenancy arrangements.

Figure 4
How Did You Finance the Launch of Your Coworking Space?
(by potential capacity at opening)

Source: “DeskMag’s 2nd Global Coworking Survey, 2012”
Coworking centers can be located anywhere people are thinking, creating and working, though most agree it helps to have an especially good coffee shop or artisanal cafe nearby. Base building requirements include the following:

- High-speed Internet service;
- 24/7 secure building and parking access, preferably with a programmable magnetic strip key card rather than a hardware key;
- Secure, covered bike storage;
- Plenty of daylight from uncovered windows and skylights; and
- Architectural character (favored, but not essential).

Functional components include the following:

- A check-in/administrator’s desk;
- Zoned workspaces, including seating (benches, chairs or stools) at tables or counters, open desks (bench desks and carrels), designated desks (cubicles and carrel clusters), private offices and casual space (couches, armchairs and/or beanbag chairs);

Facilities. Coworking centers originally sprang out of the startup culture, whose character leans decidedly toward the raw, organic, industrial look. Now, however, they can be found in places as diverse as a single-family house on a commercial street in Austin, Texas; a brick-and-beam mill building in Boston; a converted car dealership in Rye, N.Y., and a Manhattan skyscraper. Most locations tend to reflect their founder group and/or target market. Interestingly, these centers are growing most rapidly in large cities and rural areas.
• Collaboration nodes, typically pod-like groupings of seating such as clusters of beanbag chairs or conversation pits, often referred to as “hives,” “nests” or “caves”;
• Kitchenettes offering both coffee and snacks;
• Phone booths or rooms where coworkers can make cellphone calls without disturbing other workers;
• Meeting spaces (conference rooms);
• Educational spaces (classrooms); and
• Recreational spaces (ping pong or foosball tables, classic video games, hammocks, outdoor decks, patios).

Coworking centers typically include the following interior finishes/tenant improvements:

• 24/7 secure interior tenant space access, preferably with a programmable magnetic strip key card rather than a hardware key;
• Exposed structural elements (ductwork, ceilings, columns and beams, as well as cement floors);
• Versatile features (barn doors, garage doors and sliding doors, as well as other types of moveable partitions and curtains);
• Transparency (glass interior partitions); and
• Sound attenuation measures such as draped fabric, padded high wing-back chairs, padded cubes and carrels, acoustic ceilings, carpeting and/or background white noise.
Coworking Centers Take It to the Next Level **continued**

Furniture makers like Turnstone, Steelcase, Poppin and Herman Miller all are rushing to contribute new research and design concepts and products that support the social collaboration and technical function demands of the coworking movement, as evidenced by their research as well as by their sponsorship of coworking events, coworking centers and panels at industry association gatherings.

Coworking centers usually feature the following types of fixtures and audiovisual elements:

- White boards (both wall-mounted and mobile/freestanding types);
- Video projection and teleconferencing systems;
- Sound systems for events; and
- Personal storage lockers.

Corporate client-oriented coworking centers favor a hospitality-style reception experience, as seen at Serendipity Labs in Rye, N.Y.

The coffee break experience is elevated to new heights in coworking centers. Even in the smallest centers like Conjunctured, a coffeepot in a corner just won’t do.

Furniture makers like Turnstone, Steelcase, Poppin and Herman Miller all are rushing to contribute new research and design concepts and products that support the social collaboration and technical function demands of the coworking movement, as evidenced by their research as well as by their sponsorship of coworking events, coworking centers and panels at industry association gatherings.
Coworking centers are a hybrid between an office and a clubhouse, and establishing and announcing the identity of the center’s work community through its design and decor is an important element of this new movement. Founders and designers thus must be careful to ensure that a coworking center’s design meets the needs of prospective users while also enabling those users to imprint their own personalities on the space.

Impact Hub at the San Francisco Chronicle Building proudly describes its green designed Plyboo (bamboo plywood) desks and cabinetry, which are in alignment with its members’ focus on social entrepreneurship and sustainability. The DJ nest — complete with dueling turntables and a vintage vinyl collection — in the loft of Hacker DoJo in Silicon Valley offers a clue to its reputation for legendary parties. At Serendipity Labs in Westchester County, N.Y., a formal check-in desk indicates to visitors that this is a corporate-level workspace with hospitality industry-based services. The key is that the space is controlled visually, functionally and physically by the coworking community so that it can fully express its members’ identity.

Many coworking centers emphasize the convenience of a stocked and equipped kitchen/café — like this one at Intrepid Labs — both to fuel hungry thinkers and to facilitate the center’s social and educational events.
Support Systems and Programming. Coworking centers require a unique combination of services that go beyond the executive suites model’s array of reception, billing, user tracking, facilities scheduling and database management. Coworking facilities add the dimensions of fostering client interaction, educational programming and event planning. This puts a different spin on staffing, communications, marketing and outreach. It also affects property management and leasing arrangements regarding everything from trash removal after events to security and parking for after-hours access, since events often are held in the evening or on weekends.

An array of seating clusters and styles, like this one at Serendipity Labs, promotes collaboration while providing a variety of comfortable workspaces.