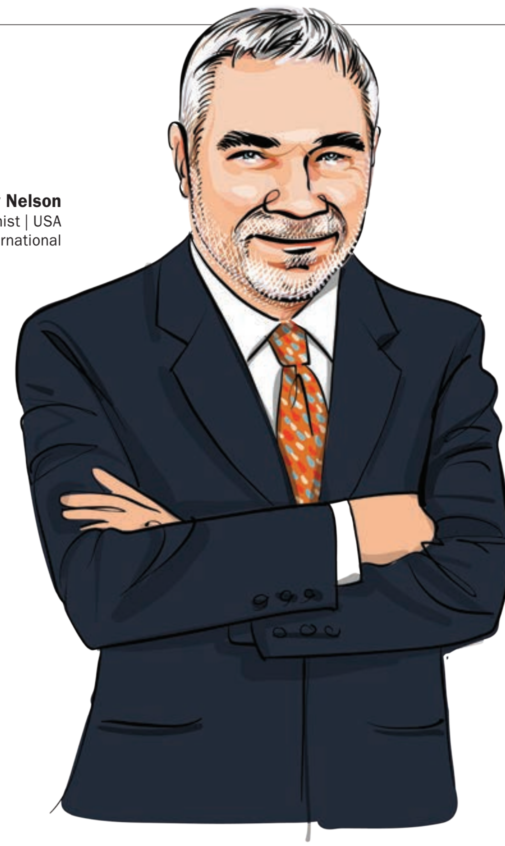

Andrew Nelson
Chief Economist | USA
Colliers International

The Gig Economy and Collaborative Space

What are the implications for office buildings?

By Andrew J. Nelson, Colliers Chief U.S. Economist

We're using less office space than we used to. Sure, the total amount of occupied office space continues to rise, but that's not saying much for a country in which the population and labor force continue to grow as well, and a large share of work is white-collar—the type of work traditionally suited for office buildings. Yet increasingly, jobs are not situated in offices, and when they are, firms are providing less space per worker.

Three key private sectors occupy a significant share of office space in the country: professional and business services; finance, insurance and real estate (FIRE); and technology. Their relative shares vary by metropolitan area, but overall these sectors account for the majority of office space used.

Employment in these sectors is now at an all-time high of about 31 million workers as of the end of 2015—6 percent above its prior peak reached in 2008. By comparison, total non-office jobs are up about 4 percent over their prior peak.

After more than seven years of economic expansion and a record 68 consecutive months of private-sector job gains, we're essentially back to full employment. Yet, more than 16 percent of office space nationally is still vacant—compared to less than 13 percent at the peak of the last cycle—according to the commercial real estate research firm Reis. And we're adding less than half as much new office stock annually in this expansion as in prior cycles.

In sum, we're now leasing about half as much space per new office worker than in prior expansions. Since 2012, our country has leased approximately 60 square feet per new office worker, compared to 118 between 2003 and 2008. What's going on?

A Gig Economy

One popular theory is that more individuals are actively seeking temporary or contract jobs—what is known as the "gig" economy. A recent study found that the share of Americans working outside the traditional employer-employee relationship has jumped from 10 percent in 2005 to nearly 16 percent barely a decade later.

A key question is, how many of these new jobs are in traditionally office-based sectors? Despite media fascination with Uber, TaskRabbit and their ilk, such online apps for arranging work account for just 0.5 percent of jobs, and only 1 percent of U.S. adults were earning income from all online platforms, including Airbnb and eBay.

Rather, the job shifts we're seeing are taking place primarily in more offline industries, and a growing share of firms are contracting out their work rather than hiring directly. Firms appreciate the flexibility of contracts for scheduling projects, while not having to provide benefits. And the contracting firms frequently do not provide office space to their contract workers.

In many cases, these contractors work from home or in shared space called co-working or collaborative space. These arrangements are particularly popular among millennials and others who have a less formal attachment to traditional workplaces.

Regus, the industry leader in shared work space, has 3,000 locations in 900 cities in 120 countries, while the upstart juggernaut WeWork claims 50,000 members who work in its spaces. Together, they and other providers of co-working space have leased several million square feet of space in the past

ILLUSTRATION BY KATHRYN RATHKE

couple of years that they then release to individual workers under a variety of arrangements.

In many markets these users have been among the biggest lessees of space in recent years. One recent study says co-working firms now account for 0.7 percent of all office space in the country. An analysis by Colliers International's Seattle research team led by Bobby Shanahan found that co-working space accounts for 1.4 percent of all occupied office space in downtown Seattle.

These firms have been leasing huge blocks of space that otherwise would be vacant. But it's important to recognize that these leases do not all represent net additional occupied space. Rather, many of the workers housed in the space formerly worked in a traditional office.

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New (and Less) Work Space

Collaborative work space is also impacting office-leasing trends. Firms are increasingly redesigning their offices to provide fewer private offices and cubicles, and more open and collaborative space. The goals are twofold: First, to provide workplaces that facilitate discussion and collaboration. Second, to decrease the firm's overall rent bill by providing less physical space per worker.

Relatedly, Internet speeds, conferencing technology and collaboration software have all made working remotely not only feasible but frequently preferable. Employees can spend less time commuting and more of their workday actually working. They have more flexibility for child care and other concerns. And when these workers do need to come into the office for face-to-face meetings, the firms can provide hot spots and conference rooms on a temporary basis. With fewer desks and individual offices, less space is required overall.

We work differently now. Contracting and collaborative workplaces are key factors in why office vacancies remain elevated even with our economy at full employment, and why so little new office space is being built. Continued economic and job growth won't change that. We just don't need as much office space. KL