COLLIERS CANADA RESEARCH PUBLICATION

Canadian Flexible Workspace and Coworking:

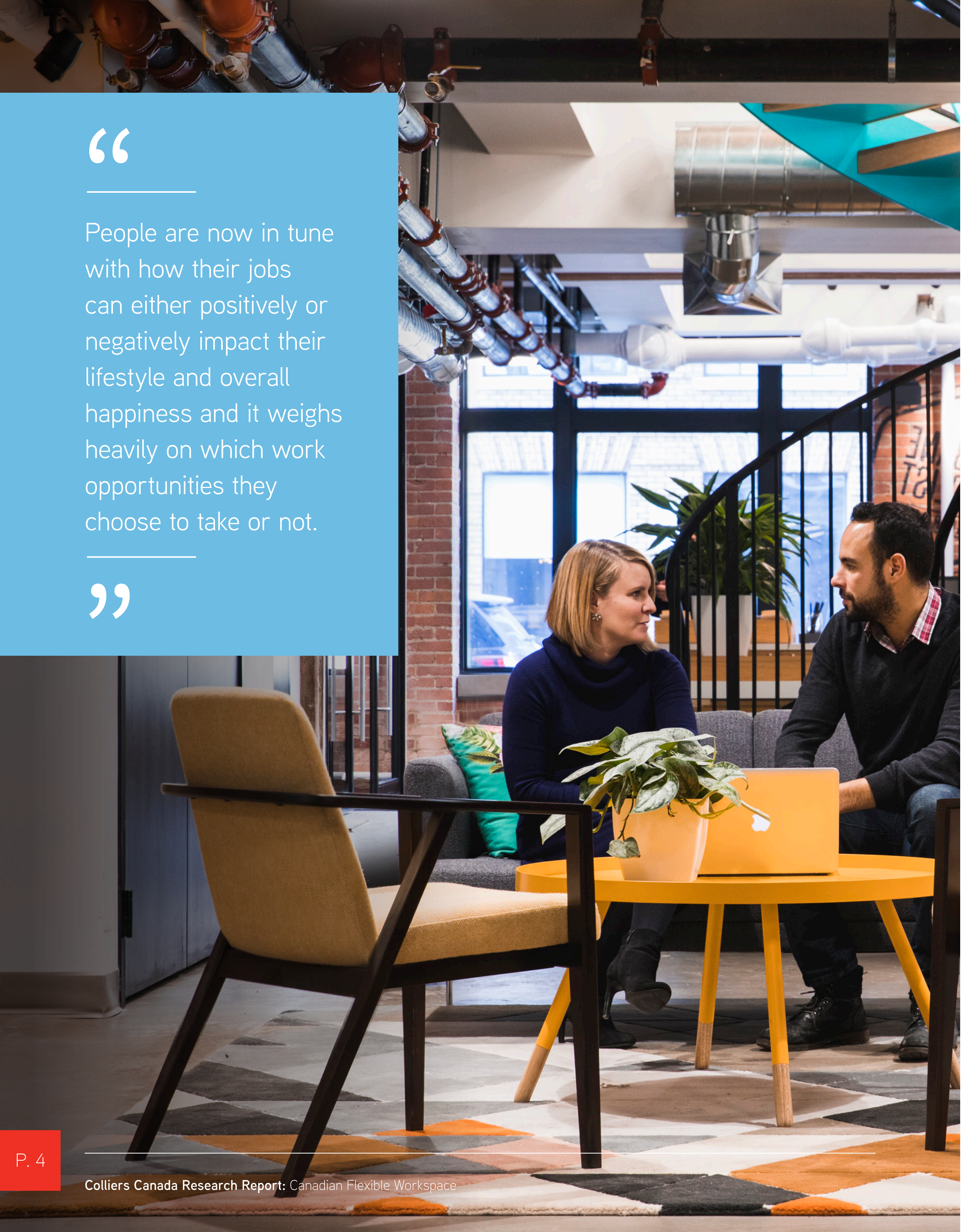
Established, Expanding & Evolving

Colliers INTERNATIONAL

Accelerating success.

Contents

Colliers Canada Research Report: Canadian Flexible Workspace



"People are now in tune with how their jobs can either positively or negatively impact their lifestyle and overall happiness and it weighs heavily on which work opportunities they choose to take or not."

INTRODUCTION

The popularity of flexible office space is disrupting the real estate industry, revolutionizing the way businesses and their employees view traditional office space and approach workplace strategy. Although flex office still represents a small share of overall office occupancy, its footprint is expanding rapidly across Canada.

The driving force behind flex office popularity is, as its name indicates, the flexibility it provides end-users. This is primarily realized in more lenient lease structures, ranging from one month to several years, which requires less commitment from a business and significantly lowers overall risk.

Another driving force behind the popularity of flex office is the critical shift it has addressed in today's market regarding wellness and the importance of healthy work environments. Flex office spaces are designed with productivity in mind yet foster a sense of community, helping to create environments where employees feel motivated, energized and inspired. This allows them to tap into a professional social network and in turn amplify their own creative and collaborative capabilities.

Apart from reaping the benefits of employee productivity, businesses recognize that flex office space speaks to something greater: people are now in tune with how their jobs can either positively or negatively impact their lifestyle and overall happiness and it weighs heavily on which work opportunities they choose to take or not.

This is a crucial reason why flex office is popular not only among freelancers and small startups but also in attracting enterprise clients such as Deloitte and Amazon. If businesses choose not to address this shift and adapt their workplace strategy accordingly, they will become overall less competitive in their ability to acquire and retain top talent.

Despite its benefits, recent events have raised questions about flex office's potential as a viable solution for workplace accommodation. Exacerbated by WeWork's failed IPO, the following questions are more important than ever to address: is flexible office space sustainable? Can this model survive a downturn? Although WeWork's IPO failure was largely a function of business strategy rather than a flawed industry model, there is some apprehension swirling around flex office, with its potential being cautiously assessed by tenants and landlords.

The purpose of this paper is to help office occupiers and investors alike to better understand:

- Growth of flexible office inventory in markets
- Cost assessment
- The volume and characteristics of flexible workspace in leading markets
- Examples of leasing models
- The motivations and drawbacks for choosing flexible workspace over traditional office

CANADIAN NATIONAL OVERVIEW

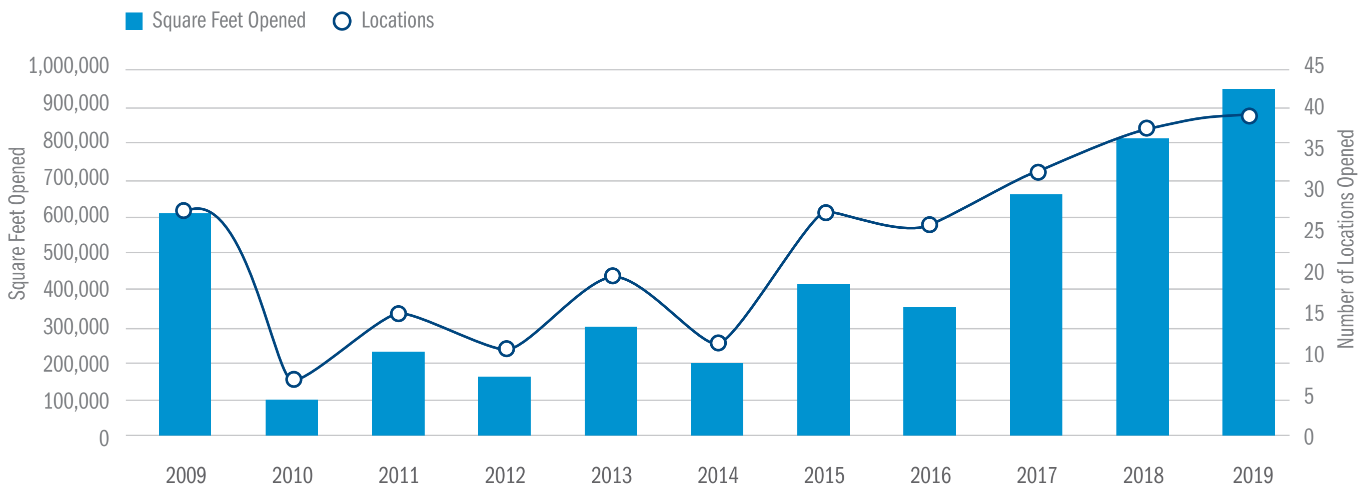
Across 12 core markets surveyed in Colliers' study, flex office space accounted for 6.6M square feet by the end of 2019, representing 1.1% of national office inventory. While still a small portion of total office inventory, the flex office market is rapidly expanding throughout Canada as demand continues to accelerate.

Rapid Pace of Growth in Canada

Within the past three years, 2.4M square feet of new flexible office space was delivered in Canada, representing an increase of 59% in total inventory and resulting in 110 new locations. Although concerns have been voiced that this growth is unsustainable, the low proportion of flex office across Canada indicates that this inventory has not grown in excess and in the case of a downturn, does not leave the market overexposed.

In addition, there have been continuous increases in the number of locations opened per annum, suggesting that the new flex supply brought to market has not yet satiated demand.

fig. 1 Canadian Flexible Workspace Expansion | 2009 - 2019



The Toronto market stands out as the national leader with regards to flex office inventory, representing 40.8% of the country's total flex inventory, totaling 2.7M square feet. This is largely due to IWG's long-standing presence in the market, accumulating flex office inventory prior to the 2000's. Canada's next three largest markets, Vancouver, Montreal and Calgary, proportionately take up 1.4M square feet (20.8%), 836,000 square feet (12.7%) and 784,000 (11.9%) of national flex office inventory, respectively. The majority of Canadian markets remain in the infancy stage of flex office space, with eight of the twelve markets totaling less than 300,000 square feet of inventory.

Among major Canadian markets, Toronto is also the national leader in growing its flex office inventory, bringing nearly 912,000 square feet to market since 2017.

"The demand for well-designed and agile workspaces continues to accelerate as companies seek solutions to minimize capital investment and meet employee needs for flexibility."

Wayne Berger
Chief Executive Officer
Canada and Latin America
IWG

With further compression of the region's 4.0% office vacancy rate (Q4 2019), acceleration of rental rate growth in core submarkets, and home to the country's largest tech hub, flex office is incredibly popular among Toronto's tenants as it allows them to be nimble in a rapidly evolving market.

Notable activity has also been witnessed in Vancouver where, on a square feet basis, recent growth is on par with Toronto, bringing nearly 600,000 square feet to market within the past several years. Flex office is a popular option in Vancouver for similar reasons to Toronto, including a low office vacancy rate of 2.9% (Q4 2019), rising rental rates, and the city's booming tech industry, ranked #15 global ecosystem by Startup Genome – making coworking a viable alternative for tenants struggling to find space or expand.

fig. 2 Canadian Flexible Workspace Inventory Growth | 2017 - 2019

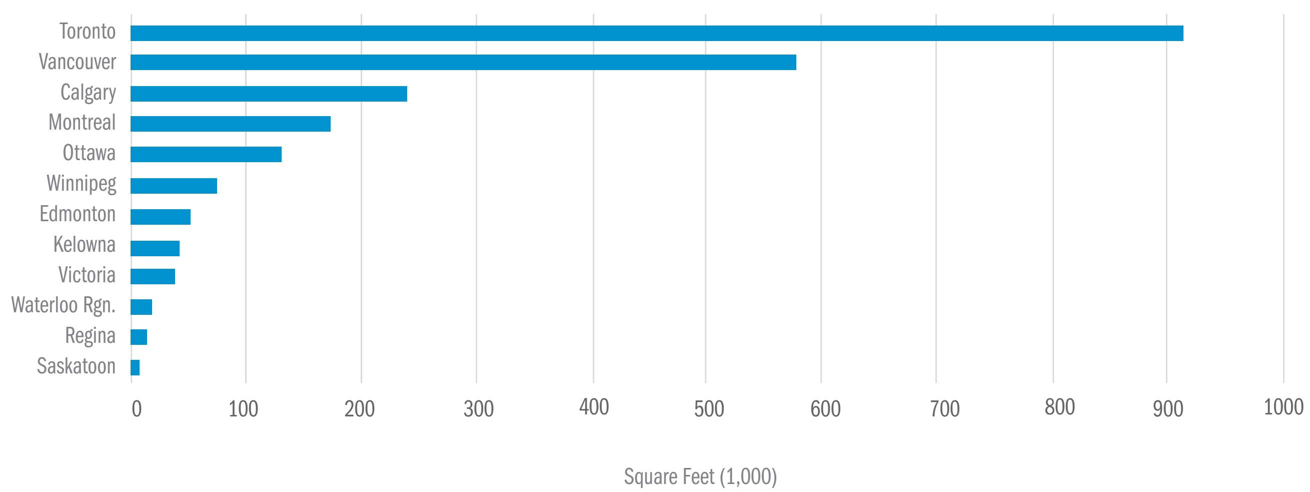


fig. 3 Market Saturation | Proportion vs. Size of Market

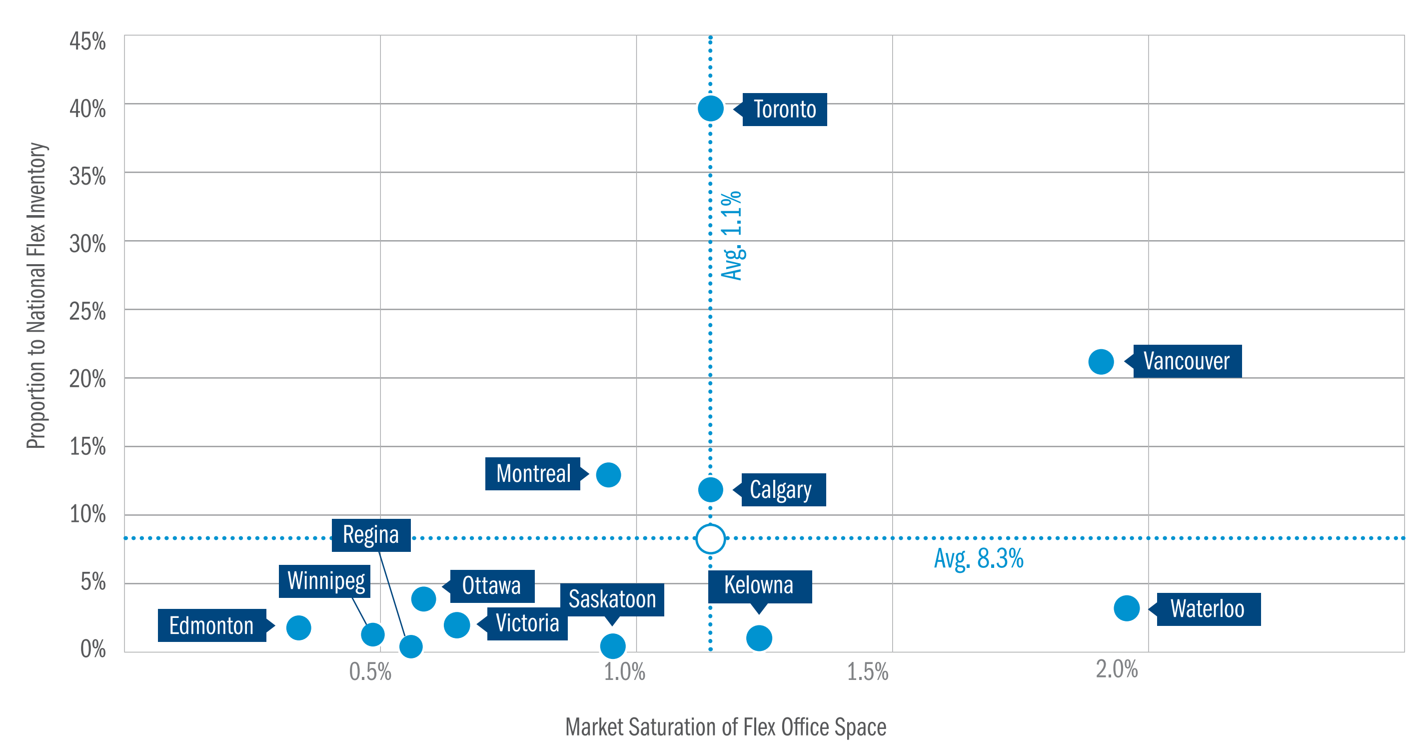
Region	Flexible Office Inventory (SF)	Total Office Inventory (SF)	Proportion to National Flex Inventory	Market Saturation	Q4 2019 Vacancy Rate
Greater Toronto Area	2,678,286	252,466,565	40.8%	1.1%	4.0%
Greater Vancouver Area	1,368,197	71,434,296	20.8%	1.9%	2.9%
Greater Montreal Area	836,621	87,901,538	12.7%	1.0%	8.1%
Greater Calgary Area	783,605	73,031,376	11.9%	1.1%	23.0%
Waterloo Region	253,254	12,968,636	3.9%	2.0%	13.8%
Greater Ottawa Area	243,989	40,566,465	3.7%	0.6%	6.1%
Victoria	108,991	29,867,097	1.7%	0.4%	15.7%
Greater Edmonton Area	83,960	16,570,063	1.3%	0.5%	11.6%
Winnipeg	65,246	5,242,321	1.0%	1.2%	3.5%
Kelowna	59,559	8,816,819	0.9%	0.7%	5.1%
Saskatoon	57,309	5,954,349	0.9%	1.0%	13.3%
Regina	29,754	5,134,190	0.5%	0.6%	12.1%
Total	**6,568,771**	**609,953,715**	**100.0%**	**1.1%**	

How much is too much?

Proportionate to conventional office inventory, market saturation of 1.1% for flex office space across Canadian markets is extremely low. Even the Toronto market – the country's leader in recent growth and overall inventory – totaled market saturation of only 1.1%. Comparatively, international markets such as London and Manhattan, reported market saturation levels of 5.1% and 2.1%, respectively, by the end of 2018.

Among Canadian markets, Waterloo measured the highest market saturation level of 2.0%, exceeding the national average by 90 basis points. This higher proportion of flex space within a smaller office suggests that Waterloo's significant tech presence has been a catalyst for its coworking growth. Apart from Waterloo, the only other market suggesting more significant market saturation compared to the rest of Canada was Vancouver, recorded at 1.9%.

fig. 4 National Flex Office Overview
Proportion of Space vs. Market Saturation



THE MAJOR PLAYERS

Our Canadian market survey identified more than 200 different exclusive flex office operators, with a total of 465 locations nationwide. Despite the large number of operators, 51% of national flex inventory is dominated by the top two major players – IWG and WeWork.

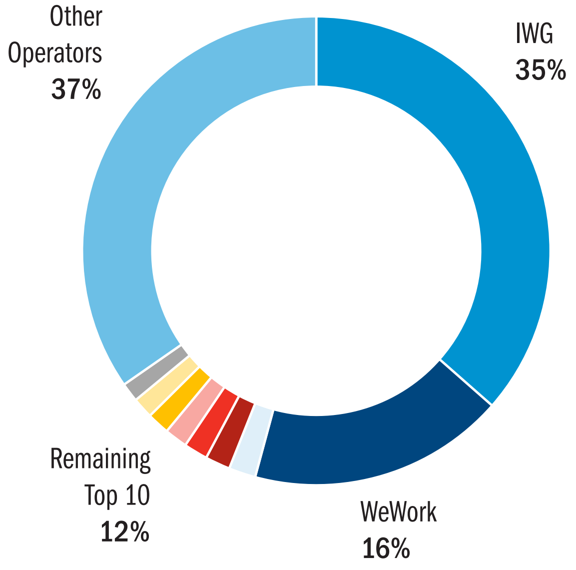
IWG is the world's largest flex office space provider, totaling over 3,400 locations spread over 120 countries and expanding at a rate of one global location per day. IWG has the highest number of flex office sites across Canada, totaling 2.3M square feet across 122 open locations, representing 35% of Canadian flex inventory. IWG operates under five different brands but within Canada is widely recognized for its Regus and Spaces brands. Regus, IWG's traditional brand, provides professional spaces designed for optimal efficiency and productivity whereas Spaces provides workspaces with a creative, entrepreneurial feel.

WeWork is Canada's second largest flex office operator, known for disrupting the market with an aggressive growth strategy and being an early adopter to bring trendy, aesthetic spaces to market, designed to be shared by a community. They have leased 19 Canadian locations totaling 1.1M square feet, representing 16% of the national flex market. Globally, WeWork has 849 open and coming soon locations across 123 cities, although their impending clean-up strategy appears to be focused on reducing their committed leases by 100.

The remaining top 10 major players represent a sharp drop in aggregated inventory, each offering less than 130,000 square feet spread over their respective locations. Altogether, the remaining Top 10 players cumulatively represent only 12% of the national flex office inventory. The remaining 37% of national flex inventory is made up of Other Operators, vastly made up of small, single site operators.

Regarding the typical size of flex office centres, the major players typically offer larger sites, with WeWork offering the largest average facility of nearly 55,000 square feet. The following operator, Spaces, represents a large drop off in average size, offering an average facility of 39,000 square feet. Among single site operators, the average is considerably smaller around 8,700 square feet.

fig. 5 Total Flexible Workspace Operators in Canada
Percentage of Total Space Leased (SF)



Operator	Total Inventory	Locations	Average Size
Regus (IWG)	1,834,584	110	16,695
WeWork	1,091,667	19	54,583
Spaces (IWG)	462,798	12	39,202
IQ Office Suites	129,043	6	21,507
Communitech	120,000	1	120,000
Workplace One	115,091	6	19,182
CSI	110,000	3	36,667
Workhaus	107,772	10	10,777
312 Main Street	100,000	1	100,000
Intelligent Office	91,330	10	9,133
Other Operators	2,406,486	287	8,706

FLEX OFFICE OPTIONS

In a typical centre, there are three main types of flex office options available for end-users, each providing their own benefit but ranging from low to high privacy and therefore, cost:

Shared desk
Also known as a hot desk, in which a user has access to a single workstation that is shared with other users.

Dedicated desk
Designated for a specific individual.

Private office
Partitioned space that can be utilized by a single user or a small team of people, offering the highest degree of privacy.

Across the 12 markets surveyed, monthly averages for a shared desk, dedicated desk and private office were $297, $443 and $854, respectively. Cost differences among the markets for shared and dedicated desks were less pronounced than that of private offices, which ranged from $770 to $6,000 nationally. This is because private offices can differ greatly in size and features available, therefore varying in product offering and price.

Unsurprisingly, costs among the three options were highest in Toronto and Vancouver, where the monthly cost of a private office averaged $1,657 and $1,270, respectively. Other markets that averaged $1,000 or more per month for a private office included Ottawa and Waterloo region, representing $1,112 and $1,083, respectively.

Although a mid-sized flex office market with considerable tech presence and an abundance of brick and beam inventory, Montreal represented the third least expensive market in Canada, with costs for all three options on par with Saskatoon and Edmonton. Inexpensive costs are likely a function of the city's relatively low real estate values, which are rapidly rising. As market values continue to appreciate, so will respective flex office costs in Montreal.

fig. 6 Coworking Costs per Desk per Month
Canadian Averages

Region	Private Office	Dedicated Desk	Shared Desk
Toronto	$1,657	$501	$320
Vancouver	$1,270	$465	$331
Ottawa	$1,112	$411	$261
Waterloo	$1,083	$324	$239
Calgary	$943	$420	$272
Winnipeg	$901	$408	$316
Victoria	$873	$413	$279
Kelowna	$756	$396	$370
Edmonton	$642	$384	$247
Montreal	$550	$330	$245
Saskatoon	$543	$225	$206
Regina	$395	N/A*	$252

*average cost per desk per month based on 12 markets surveyed
**average cost for dedicated desks is not available in Regina

What is included, and not, in your coworking costs?

The premium for term flexibility and ancillary business services are built into flex office costs, therefore making conventional leases typically less expensive than renting coworking space. The benefit of flex office, however, is that these costs are spread out over the lease term and not paid for upfront as seen with traditional leases.

With the traditional office model, the responsibility of paying for administrative help, IT support, in addition to recruitment costs for these services, falls on the business. With a coworking model, these various services are made readily available by the facility, allowing their clientele to focus on their main line of business without having to pay for the costs associated with running it.

In addition, the build-out of a new office space is a typical up front cost for a business, as the office is altered to fit the modern and/or specific requirements of a business.

This differs within a coworking space, as the facilities are already built out with a modern design, providing a slew of amenities available for immediate use.

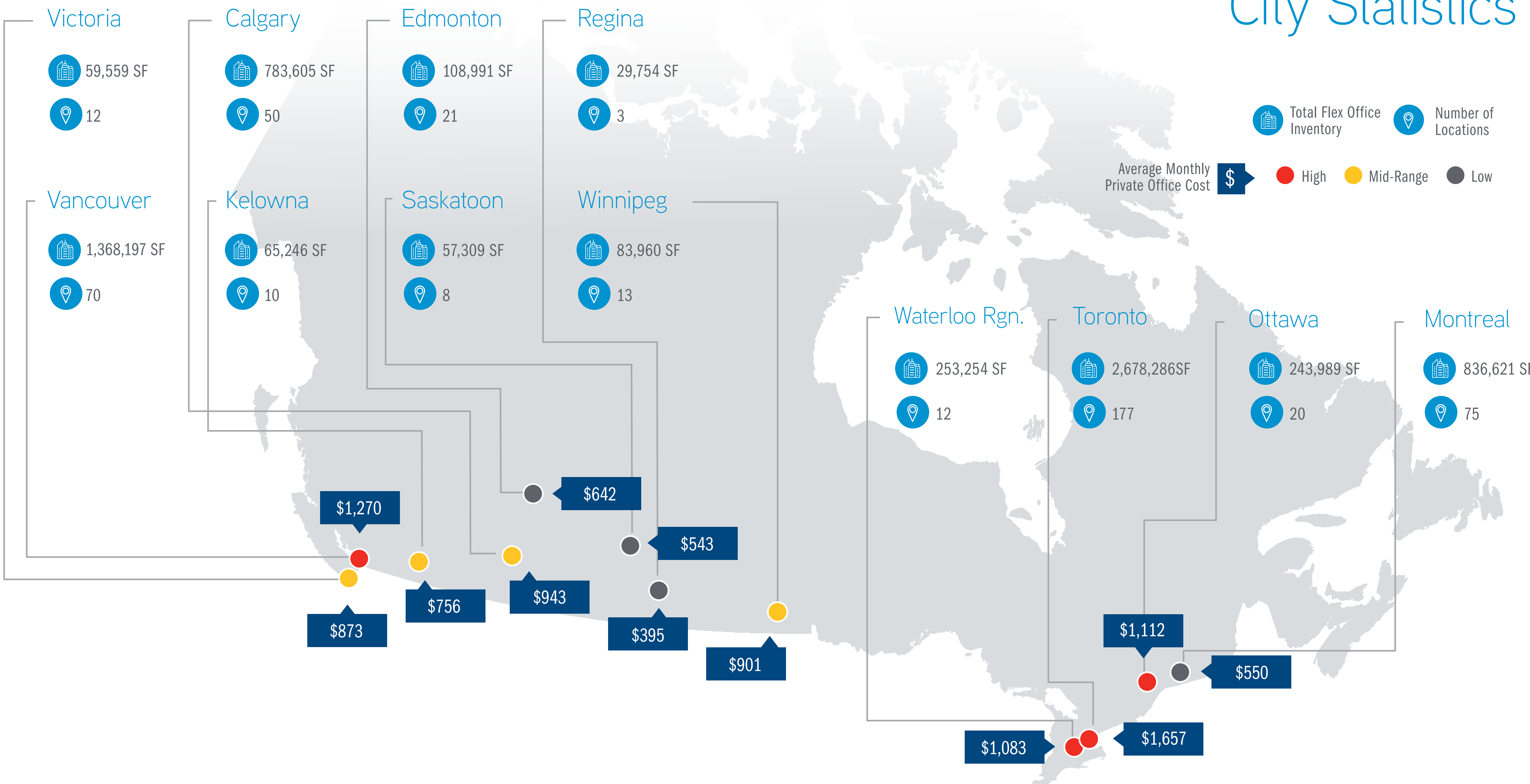
Depending on their preferred package, there are extra service costs associated with coworking which can easily add to the monthly bill. For example, a common expense taken for granted in a traditional office is boardroom rental, which can differ greatly across different flexible office operators. Coworking facilities also charge various fees for printing and copying services, with some also charging a one-time tech installation fee which can cost up to several hundred dollars per employee. As a result, tenants are best advised to look at total operating costs when comparing flex office to traditional lease solutions.

fig. 7 Typical Traditional & Coworking Office Expenses

	Traditional Office Space	Coworking Office Space
Administrative Support & IT Services	●	
Office Build-Out	●	
Boardroom Rental		●
Printing & Copying		●
Tech Installation Fee		●

"Customers pay a premium for term flexibility which conventional leases do not provide."

Flexible Workspace City Statistics

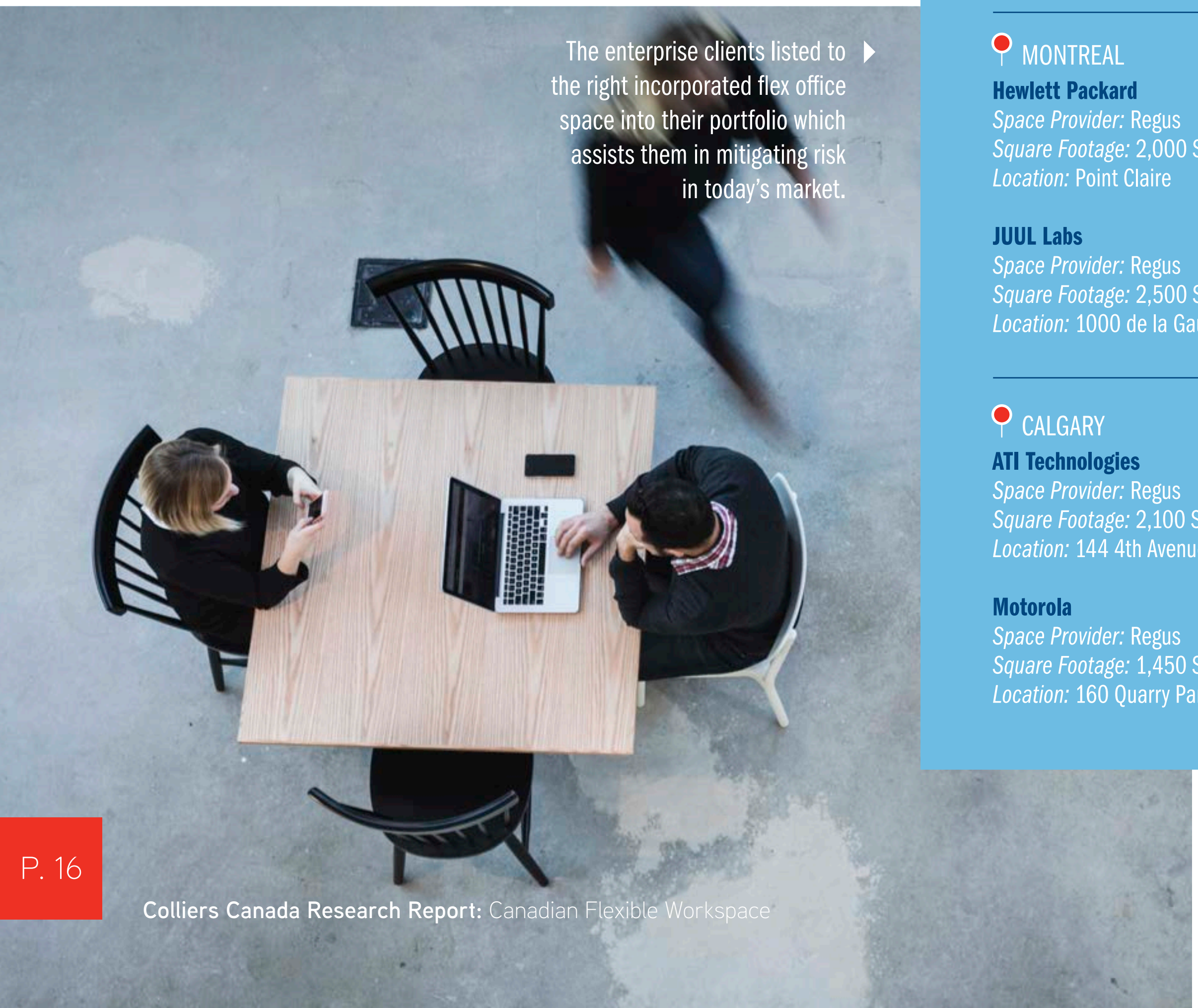


Flex Office Occupier Profiles

During periods of uncertainty, rigid lease terms can end up having costly consequences. The benefits of flex office, including the ability to easily upscale or downsize a business or exit obligations on short notice, in addition to providing motivating and collaborative work environments, appeal to a wide range of tenants.

Although originally intended to attract freelancers, startups and other creative companies, the flex office model is now attracting all tenant types – large and small, public and private, for a host of varying reasons. An emerging trend is that enterprise clients are occupying large portions of the tenant makeup in the major operators' centres. This includes traditional and corporate tenants, such as technology giants and financial institutions, which have committed to leasing large amounts of flex office space for years rather than months.

Another trend among larger tenants is that in addition to leasing floors of traditional office space, they are also looking to incorporate a portion of coworking space into their lease structure. For example, creating an 80/20 split between conventional and flex space. By adding this portion of variable space to their portfolio, enterprise clients are able to navigate their business' growth more fluidly.



The enterprise clients listed to the right incorporated flex office space into their portfolio which assists them in mitigating risk in today's market.

VANCOUVER

Amazon
Space Provider: WeWork
Square Footage: 95,000 SF
Location: 555 & 595 Burrard Street

Salesforce
Space Provider: WeWork
Square Footage: 40,000 SF
Location: 333 Seymour

Deloitte
Space Provider: Spaces
Square Footage: 77,000 SF
Location: 929 Granville Street

TORONTO

Google
Space Provider: Spaces
Square Footage: 26,000 SF
Location: 200 Bay Street

Bank of Montreal
Space Provider: WeWork
Square Footage: 20,000 SF
Location: Hudson's Bay Centre

MONTREAL

Hewlett Packard
Space Provider: Regus
Square Footage: 2,000 SF
Location: Point Claire

JUUL Labs
Space Provider: Regus
Square Footage: 2,500 SF
Location: 1000 de la Gauchetiere St. W

CALGARY

ATI Technologies
Space Provider: Regus
Square Footage: 2,100 SF
Location: 144 4th Avenue SW

Motorola
Space Provider: Regus
Square Footage: 1,450 SF
Location: 160 Quarry Park

MOTIVATIONS FOR CHOOSING FLEX OFFICE

1. Flexibility

As businesses grow or contract their business, a traditional lease can create a financial and physical burden. With drastically shorter lease terms available, flex office space allows the tenant, not the landlord, to dictate the length of term. Businesses are able to adjust their growth targets as they mature, no longer having to predict future growth five years out.

Geographic flexibility is a big selling point among flex office operators as well. With widespread digitalization, it's become possible for employees to work remotely out of a location of their choice that best suits their lifestyle. The major players provide urban, suburban or even international locations, giving clients the option to choose a working location that aligns with their schedule.

2. Access to a Community and Vast Network

Being within close proximity to other innovators benefit companies, either as potential collaborators or investors. With a diverse tenant mix, flex office locations bring people from different industries together, allowing them to build business relationships and share unique perspectives.

Larger operators, IWG and WeWork, also provide access to their larger international network that end-users can tap into, either through built in membership or an additional fee.

3. Eliminate capital expenditures

Flex offices are ready fully furnished for their end users, with some operators even tailoring the space to match the business' work style and culture. Although providing the typical build out of an office and then some, no upfront cost to the tenant is required, unlike the substantial same leasehold costs often associated with a traditional lease.

4. Efficient and Streamlined Process

Everything about flex office space leads to a streamlined process for the business, from the leasing structures available, easy and quick move-in, and hands-off approach to office management. It's possible that tenants are even able to up and running within 24 hours of signing a flex office contract. This efficiency differs greatly from the months of lease negotiations and construction associated with conventional office space.

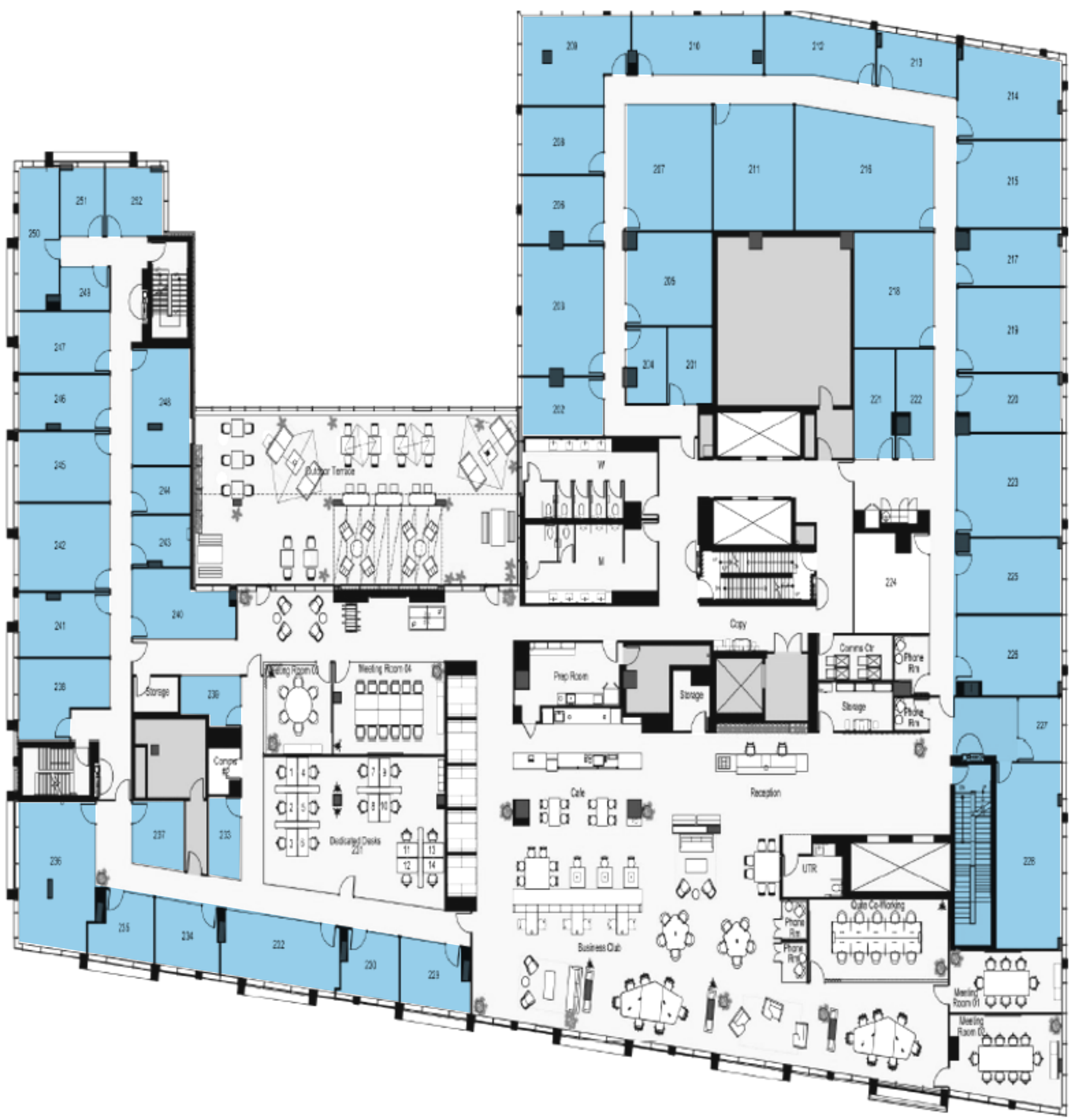
MISCONCEPTIONS

Misconceptions about Distraction and Privacy in Flex Office Space

A common misconception about coworking and flex office space is that due to its collaborative nature, it results in less privacy and compromises an employees' ability to focus and concentrate. In reality, however, many flex locations are designed thoughtfully, keeping designated work areas separated from common areas as to not increase the cognitive load on workers.

Below is a floorplan provided by Spaces for their 5200 Yonge Street, Toronto location which opened in Q4 2019.

Offices are lined around the periphery of the floor, creating hallways and sectioning space for private areas. Rooms are constructed specifically for dedicated desk areas. As many businesses are adopting open concept layouts for their traditional office, Spaces' floorplan serves as an example that coworking spaces can actually provide more privacy than a conventional office and therefore produce more productivity gains.



Offices (*highlighted in blue*) line the periphery of the floor, creating hallways and sectioning space for private areas.

Floorplan courtesy of Spaces. 5200 Yonge Street, Toronto location.

KEY TAKEAWAYS

01 Flexible office space is surging in demand not only because of the flexibility it offers tenants but also due to the critical shift in workplace strategy and wellness that it addresses. By incorporating flex space into their portfolios, end-users are able to better mitigate risk and attract top talent by providing motivating, collaborative and amenity rich work environments.

02 Not only is the country's flex office inventory very low, the country's leading market, Toronto, is proportionately low compared to other major international markets as well, such as London and New York. With strong market fundamentals in place continuing to drive demand for flex office, growth should not be considered unsustainable or capped.

03 The Canadian flex office market is dominated by two major players, IWG and WeWork, which represent more than half of national inventory. There are hundreds of single site operators across the country, however, which make up over one third of the market. The remaining major players in the Top 10 have several locations at most, each offering less than 130,000 square feet by the end of 2019.

04 As flexibility is a benefit to all types of tenants, flex office has attracted a wide range of end-users. It is trending that enterprise companies are incorporating flex office into their portfolios, in order to more effectively manage small- and large-scale growth.

05 There are three seating options, each increasing in cost based on the level of privacy gained. Private offices are the most expensive option, varying greatly in cost due to the sizes and features available.

06 Flex office costs are most expensive in leading markets, Toronto and Vancouver, whereas Montreal recorded surprisingly lower costs on par with the Saskatoon and Edmonton markets.

07 Motivations for choosing flex office include flexibility with regards to lease structures and geographic location, networking opportunities, the elimination of capital expenditures and an efficient, streamlined process for its end-users.

08 By providing a community atmosphere, there is a common misconception that there is less privacy and more distraction within flex office spaces. In reality, flex offices are designed with productivity in mind, keeping collaborative common areas separated and maintaining a high degree of privacy among areas designated for private offices and other dedicated work areas.

For more information on the flexible workspace market in Canada, please contact:

Daniel Holmes
Senior Managing Director, Office
Toronto Region
daniel.holmes@colliers.com
+1 416 791 7239

Report Author:

Rachel Levy
Senior Research Analyst
rachel.levy@colliers.com
+1 416 791 7207

www.colliers.com

Accelerating success.