

UNDER THE EYE

A REAL ESTATE NEWS SURVEY

Coworking in Paris

Changes of dimensions

Coworking and space – what does it mean?

What will be the impact on corporate real estate?

The Station F event

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The launch of Station F, the expansion of Spaces with the leasing of new Parisian premises at 54 Rue de Londres, the arrival of US unicorn WeWork, which has major ambitions in Paris – these are just a few quick-fire examples of the real-estate revolution currently sweeping Paris known as “coworking”.

A new way of designing workspace, appropriating it and making it work, bringing the office into the age of the collaborative economy. It is also set to break out of the strict confines of work to take over the rest of daily life – particularly the home. Barely have we become aware of the impact of coworking and its potential effects and already coliving is taking shape before our eyes...

This phenomenon puts Paris and its region on the map of a global movement, which started in California, in Silicon Valley, and which is closely linked to the growing importance to the economy of start-ups and tech companies.

As Philippe Botteri, a partner in US investment fund Accel, indicated at the Viva Technology show: "The French tech ecosystem has now reached a critical mass enabling it to attract talent from abroad and the creation of a startup visa should simplify and accelerate these recruitments."¹ At the same event, Sara Sebban, a New York-based consultant with Synkro Consulting noted that startups, particularly from America, have no other choice but to develop outside their home country and that France has a strong card to play to attract them: "Grey matter is a limited resource and France is an ideal host country. It could become the Americans' R&D centre!" And the presence of coworking structures

and spaces dedicated to startups is now clearly perceived as a factor in cities' attractiveness. It is therefore increasingly being incorporated into the various international rankings, in the same way as schools and universities, accessibility and quality of life. That is the case for US audit firm AT Kearney's Global Cities Index², for instance, in which Paris has moved up 10 places in a year. The French capital stands out as one of the three world cities, along with New York and San Francisco, with the greatest future prospects in terms of attractiveness and economic development. What are the reasons for this Remontada³? The increase in the number of business incubators as well as foreign direct investments.

The development of coworking spaces is therefore an opportunity in the great game of Monopoly played out in the global economy and a source of diversity for the local and national ecosystem, organised here under the French Tech label.

Revolutions are known to spread, however, and widely influence all aspects of society, sometimes without us realising. And that is no doubt what is happening, as coworking increasingly moves beyond the boundaries of the tech world and a growing number of companies of all sizes and from all business sectors are becoming interested in coworking solutions and adopting related practices. There are many reasons for this. New approaches can nevertheless prove difficult to implement and require a strong capacity to adapt.

Here is a brief roundup of the coworking phenomenon in Paris...

¹ Le Figaro, "La France, terre d'accueil pour les start-up étrangères", 17 June 2017

² AT Kearney, Global Cities 2017

³ Comeback: football fans know that the Remontada has not always been a Parisian speciality.



COWORKING AND SPACE – WHAT DOES IT MEAN?

THE GENERATION Y OFFICE

Coworking refers primarily to a workplace organisation, based on the creation of a collaborative network of workers to encourage exchange and openness, communication, pooling of knowledge and experience. This organisation involves a specific approach to real estate, as shared workspaces allow collaborative networks to blossom. Working method and space are therefore closely interlinked, to such an extent that the terms are merging.

The phenomenon really took off in the United States, in San Francisco, from the mid-2000s. It was born out of young entrepreneurs' desire for freedom, sharing and sociability and their dissatisfaction with the real-estate solutions available at the time around Silicon Valley. Out of their desires and dissatisfaction, California's System D created an opportunity – the invention of a sort of professional house-sharing. This is a response to the solitude and isolation which comes from working from home and is also an alternative to leasing traditional premises, which requires a higher budget.

You are not the tenant of a coworking space but a member.

The difference is important, since it assumes that:

- Occupation of the space is not based on a lease but a service contract, with a flexible and variable duration and optional access to a range of services and amenities;
- Pooling resources reduces individual costs and gives young companies rapid access to services they are unable to develop internally;
- The existence of a community of members which acts like a professional business network. This last aspect creates a clear distinction, for example, between coworking spaces and traditional business centres. And it is fundamental, to such an extent that in the United States,

some coworking operators, including WeWork, are now offering the option of joining their communities without moving into their premises.

Use of the word "community" has not always facilitated the understanding of coworking, making it appear either inward-looking and closed or else giving off an air of flower power and hippies. The baby-boomers have had nothing to do with the emergence of coworking, however. No, it is the child of Generation Y, born between 1980 and 2000 and which, in the West grew up against the backdrop of environmental issues, the digital transition, virtualisation, internationalisation and seeing permanent uncertainty, even danger, all around them. This environment did not produce standardised, regimented individuals but promoted values of initiative and individual responsibility, adaptability, solidarity and regulation – all values at the heart of coworking. The collaborative workspace is therefore anything but a joyful mess. It is managed and coordinated to bring the community to life.

It is this dual aspect of managed space and community which defines coworking and makes it possible to incorporate business incubators, startup nurseries and hackerspaces in what are sometimes called "third places".

Physically, coworking space is characterised by the importance paid to shared, open areas, whether this involves workplace (offices or workshops) or amenities and relaxation areas (cafeterias, kitchens, meeting rooms, event spaces, relaxation areas, terraces, etc.).

There is no exclusivity in principle – coworking is potentially aimed at all types of profession across all business sectors. Fab labs are design and prototyping spaces (including researching commercial opportunities), while makerspaces are individual production spaces open to artists and

craftspeople. Naturally, its Californian roots mean that coworking continues to be associated with information and communication technologies and has mainly targeted creative professionals, startups, independent consultants and service providers. This working method and approach to space has gradually permeated the more traditional economy. Large groups are increasingly organising their offices according to coworking principles, to create "dynamic open-plan" spaces. Others are moving some of their employees to external premises, for shorter or longer periods. Their aim is to break out of their routine and the risk of paralysis which threatens large organisations, to form open and innovative project teams. Not to mention their desire to attract Generation Y.



THE FIVE PILLARS OF COWORKING

INDIVIDUALS

The initiators of the phenomenon in the United States, via figures such as Brad Neuberg, Tara Hunt and Chris Messina

PURE PLAYERS

From the 2010s, they have increased the professionalism, quality and size of coworking spaces

NON-PROFITS AND PUBLIC BODIES

With a desire to nurture startups, they brought coworking to Europe, with examples including C-base in Berlin and Silicon Sentier in Paris

PROFESSIONAL AND ACADEMIC FUNCTIONS

With a greater focus on regional skills development, they are particularly active in fab labs

SERVICE PROVIDERS

With a different commercial positioning from pure players, they work on behalf of owners to generate value from their locations

WHAT WILL BE THE IMPACT ON CORPORATE REAL ESTATE?

THE COWORKING REVOLUTION

Coworking and its new practices have already made a profound impression on the design of office spaces and the how-tos of the corporate real-estate market – and the revolution is far from over...

In Paris, the transformation has been reflected in the recent emergence of coworking pure-players (The Bureau, Kwerk, Nextdoor, WeWork, etc.) and service providers (including Bureaux à Partager), as well as the startling rise of startups and tech companies participating in office consumption. The impact of this transformation has been felt in two different areas and to varying degrees.

How the real-estate market works:

The area in which the impact has so far been felt to a lesser extent is how the corporate real-estate market works. Two success factors are particularly important for coworking: the flexibility it gives companies and the time it saves them. Coworking can indeed offer an alternative to leasing, with its fixed commitments, and to the obstacle course facing companies, from the search for premises to actually moving-in. This alternative is particularly popular with companies, unwilling to be dispersed or constrained at a time when their business outlook is highly changeable and requires their full attention. Leases are not a thing of the past, of course, but they will certainly need to evolve to become more flexible – or else see new kinds of lessees replace users.

Coworking specialists have gobbled up office space in the last two or three years – and it's far from over. Indeed, many of them are examining the feasibility of new sites. WeWork,

for example, puts Paris at the top of its list of development priorities after opening 19 spaces in London (growing from 1,500 sq m to almost 30,000 sq m). In fact the first Parisian centre had barely opened on Rue Lafayette (11,700 sq m) before WeWork leased 6,200 sq m to open a second in the Marais. There is one clear driving force behind this frantic activity on the part of WeWork and others: customer demand. Customers who are no longer limited to startups: more and more medium-sized and large companies are showing an interest in the solutions offered by coworking. Not simply to bypass the rigidity of a lease, but also to promote managerial and behavioural changes within their teams. Even law firms, for which confidentiality is an important requirement, are no longer ruling out this option. The CDAAP (Paris lawyers' business centre), for example, has converted part of its premises based on this principle. This has naturally led to coworking providers acquiring a key role in the real-estate market, which will continue to grow in the medium term. Given the development of remote working, ORIE (regional corporate real-estate observatory) predicts that demand for coworking spaces will account for up to 640,000 sq m in the Paris region by 2030⁴. And that estimate, dating from 2015, would no doubt be revised upwards today. These growth prospects explain why coworking specialists are now regularly included as targets for the marketing of office premises. This therefore requires consideration of their needs when designing real-estate projects.

Some go as far as seeing in this growth the first signs of a phenomenon

comparable to the revolution in retail premises and their suppliers in France, with the rise of shopping malls and their centralised purchasing departments. These departments are responsible for wholesale purchasing of products that meet precise and constant specifications, under the best possible financial conditions. They have become the almost exclusive contacts for the producer, thereby controlling the range of products made available to the end-customer. Will coworking specialists become the main office space purchasers? Perhaps. This would be one area of industrialisation which corporate real estate has more or less escaped so far.

The emergence of coworking players is also leading to other changes in practices on the corporate real-estate market. However, these changes are not driven by users, but investors. Some such investors are now choosing to generate value from premises by converting them into pop-up coworking centres, based on an occupancy agreement or a lease, which may be temporary, with profit-sharing for the owners in the income generated. This solution is certainly appealing to an owner not wishing to commit immediately to modernising a property, or looking to obtain an income from it while carrying out studies or preparing the building permit applications required for its restructuring. It also gives owners the option of outsourcing the redevelopment and upgrading of a property to a coworking specialist, which will then manage it. Leasing the asset to a coworking player is also an alternative to multi-tenant solutions, enabling securitisation of rental income to some extent, by reducing risk. This

provides an integrated property and asset management solution.

Office design: The second area impacted by this revolution is the design of office spaces. This is the area in which the impact has been felt the most so far, both in France and abroad, to the extent that we may wonder whether offices still exist... The question may be somewhat provocative but is no less valid. Coworking and tech companies, which operate on a similar model, are having a transformative effect on workspace.

Their focus is on the spirit of the space, magnifying its identity. This is the opposite of the anonymity and standardisation which has often characterised corporate real estate, due to the fear of reducing a premises' marketing potential.

Buildings with personality and alternative districts are becoming increasingly in demand, sometimes to the detriment of traditional business spots. Halls and passageways are being magnified and showcased to become meeting spaces. Emphasis is shifting to relaxation and leisure areas, with the introduction of table football and table tennis, while lounges, kitchens and cafeterias are becoming more important. Service areas are becoming more common and emerging from their dark corners. The largest companies, meanwhile, are creating terraces and gardens in the heart of the building. One tower, at the Googleplex in Mountain View, near San Francisco, offers a telling example. Employees there can swim, play beach volleyball, bring their dogs and work on personal projects – to the extent that work becomes almost

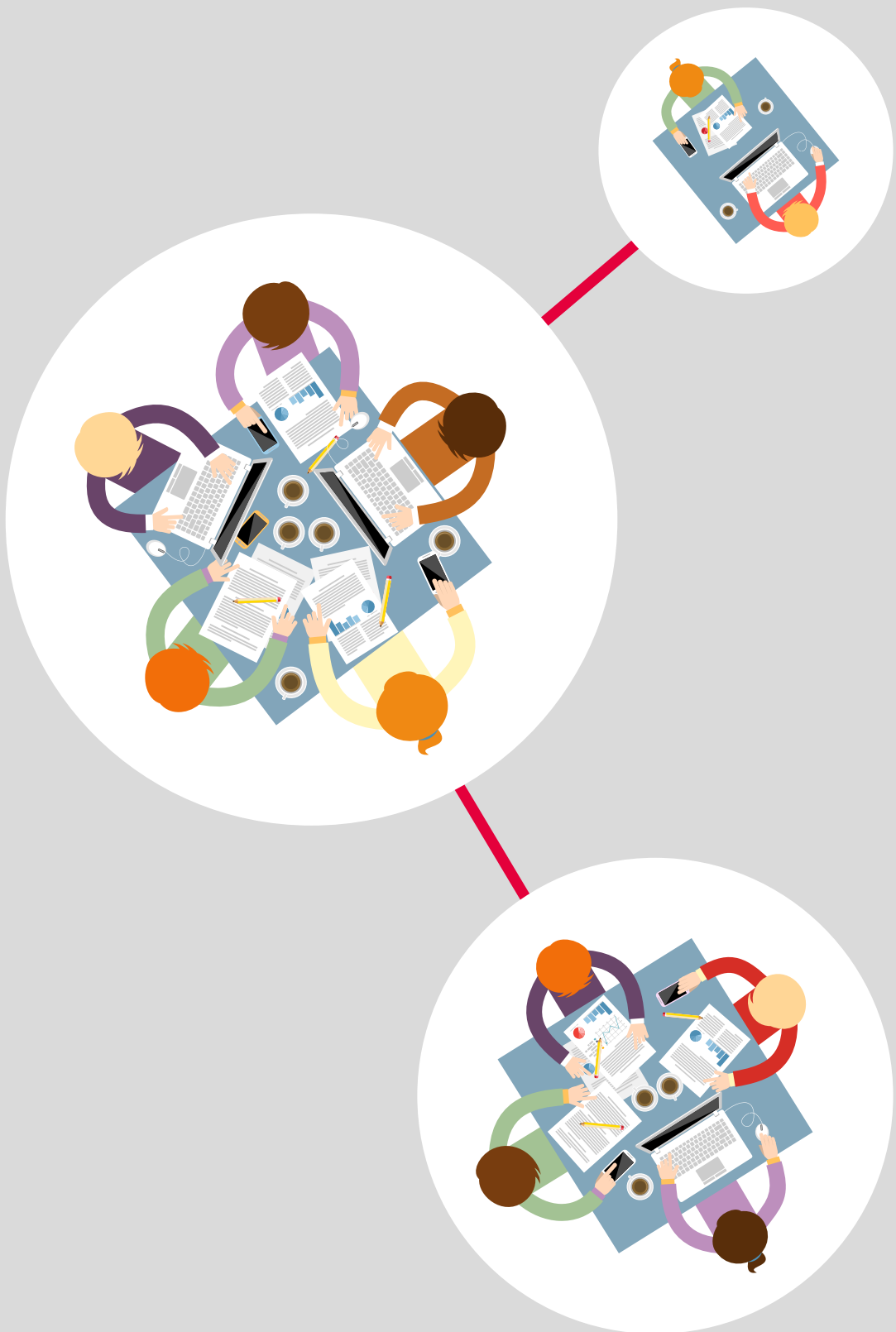
invisible. This reflects the blurring of work and the increasing porosity between work and leisure time, professional and private life. As Alain d'Iribarne, chair of the scientific board Actinéo, notes: "We are in a state of transition... Whenever and wherever you happen to be, you are always potentially at work"⁵.

Employees are mobile, including while they are at work. They may change location each day and even several times in the same day, depending on who they need to work with and the tasks they have to complete. This is the "dynamic open-plan", in which the allocated workstation no longer necessarily exists. This design of space is permitted by the paperless culture, leading to the disappearance of cabinets and files, as well as seemingly innocuous details, such as the disappearance of the individual waste bin in favour of a collective bin on each floor for recycling. It is now winning over numerous large groups, which see it as an opportunity to adapt to new technologies and attract young talent. However, they need to be careful not to lose the community aspect and reduce this inspiration simply to a design issue. The adoption of these cross-functional, open, fluid and egalitarian premises should be accompanied by a profound managerial change. These spaces are the polar opposite of a strict, vertical hierarchical structure.

With a less funky and fun take, but still true to the desire for de-standardisation, The Bureau has come up with the "boutique office" – based on the concept of "boutique hotels" – offering luxury coworking. There's no pinball or pool in sight here.

Coffee is served at the counter along with sweets, workers sit at bespoke creations from Italian workshops or on eclectic furniture and have access to a cinema room, spa and gym. Not to mention the concierge service, associated services, latest-generation equipment and Champagne served to celebrate business successes. This is the French version of the NeueHouse in Madison Square in New York.

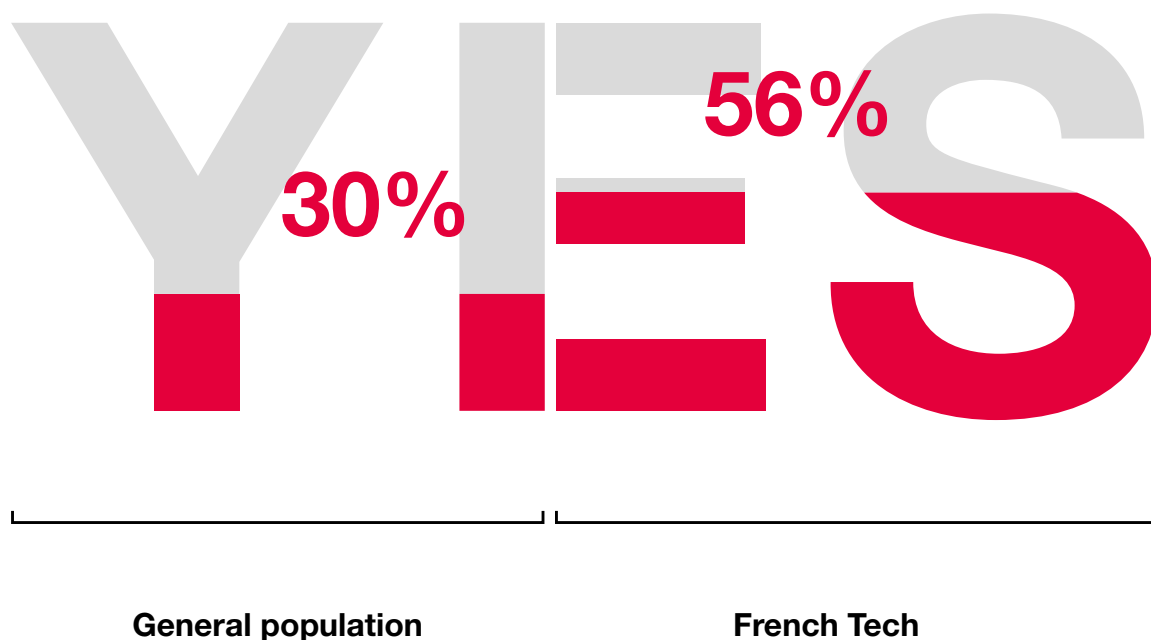
Corporate real estate is taking on a new dimension. Current changes represent a fantastic opportunity, but require the capacity to adapt. The change brought about by coworking is no exception. It applies to users, owners and real-estate professionals. It is as though we are moving from a time when offices were industrial products produced by craftsmen to one in which they are craft products designed industrially.



OFFICES – THE ICING ON THE CAKE FOR COMPANIES

As indicated by the last Paris Workplace study, investing in the workplace offered to employees is not optional for a company. It is a competitive advantage, particularly for French Tech companies, and a condition for attracting talents.

"Offices have been an important factor in my decision to join a company":



THE STATION F EVENT

STATION F: STARSHIP ENTERPRISE

Xavier Niel, emblematic French telecommunications tycoon, is putting the final touches to one of his boldest projects with the opening of Station F in Paris's 13th arrondissement. A spaceship worthy of Starfleet, designed to assert Paris's place in the international tech ecosystem by setting off for uncharted territory...

Station F is quite simply the largest startup campus in the world, at over 34,000 sq m. It sits beneath the historic vaulted ceiling of the Halle Freyssinet, built for rail freight between 1927 and 1929 and now transformed by architect Jean-Michel Wilmotte. This coworking space is set to become an incubator and growth accelerator for the 1,000 companies that move in by offering a complete entrepreneurial ecosystem.

As well as working spaces accessible 24 hours a day, seven days a week, member companies will find an event area containing around 60 meeting rooms, a 360-seat auditorium, a pop-up store, a fab lab featuring 3D printers and wood and metal workshops, as well as a chill-out zone with four restaurants and a 24-hour bar. But above all, Station F will offer startups potential support from powerful partners, such as HEC, Facebook and Microsoft, which will provide coaches and chief technical officers as well as packages likely to prove very popular with young companies. The free supply of 900 Microsoft software packages, its storage platform and Azure remote services is estimated to be worth €106,000 a year... This generous sponsorship is no act of charity, however – by creating a community with young inventors and entrepreneurs, they are banking on receiving a return from their talent and creativity.

Station F also aims to encourage intermingling with the local area and the rest of society by being largely accessible to the public, particularly via its chill-out zone.

Overlooking Station F, Xavier Niel has teamed up with Compagnie de Phalsbourg to develop the Aurore project over 12,700 sq m. The building, designed by Japanese architect Kengo Kuma, will house the first site of American luxury and eco-friendly hotel chain 1 Hotels (140 rooms), as well as a panoramic restaurant, a 1,000 sq m gym, open to Station F members, and a new generation youth hostel managed by Slo Living Hostel and dedicated to young startups (179 spots). But let's not forget, on the entertainment side, the opening by La Bellevilloise of Chez Fellini, a new concept of contemporary cabaret. This timber-framed bridge structure, built over the tracks at the Gare d'Austerlitz will eventually provide a 28m high suspended footbridge, laid out as gardens, from where it will be possible to contemplate the digital images projected onto the roofs of Station F.

But we will have to wait another four years before Aurore finally opens. In the meantime, on the other side of the ring-road, Station F entrepreneurs will be given an original co-leasing solution, with @home. Within the next few months, these three 11, 12 and 17 floor towers, commissioned by Xavier Niel and designed by Jean-Michel Wilmotte, will provide 600 startups with 95 sq m co-leased premises for a total surface area of 12,000 sq m. A completely new co-living experience in France.

Station F, Aurore and @home: a sci-fi space craft exploring uncharted space. These living and working areas hark back to a previous Utopia, since they

share many characteristics with the Phalanstery, Charles Fourier's notion of an ideal community in the early 19th century. The Phalanstery was a productive community, a group of individuals with shared activities and a common goal, as well as the space in which this group lived, designed to promote relationships between individuals, enabling the group and each of its members to reach their full potential.

It is only through close connection with the past that we can envision our future.

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THE COWORKING EXPLOSION

Berlin hosts the first hackerspace: C-base.
A hackerspace is a sort of community laboratory open to people who share a common interest, particularly in technology, IT, science or art, allowing them to cooperate and exchange ideas. C-base can be seen as a prototype of the existing coworking space.

San Francisco's Brad Neuberg creates the first official coworking space, offering wifi, shared lunches, meditation sessions and massages.
The aim is to offer an alternative to the traditional office or working from home.

1995

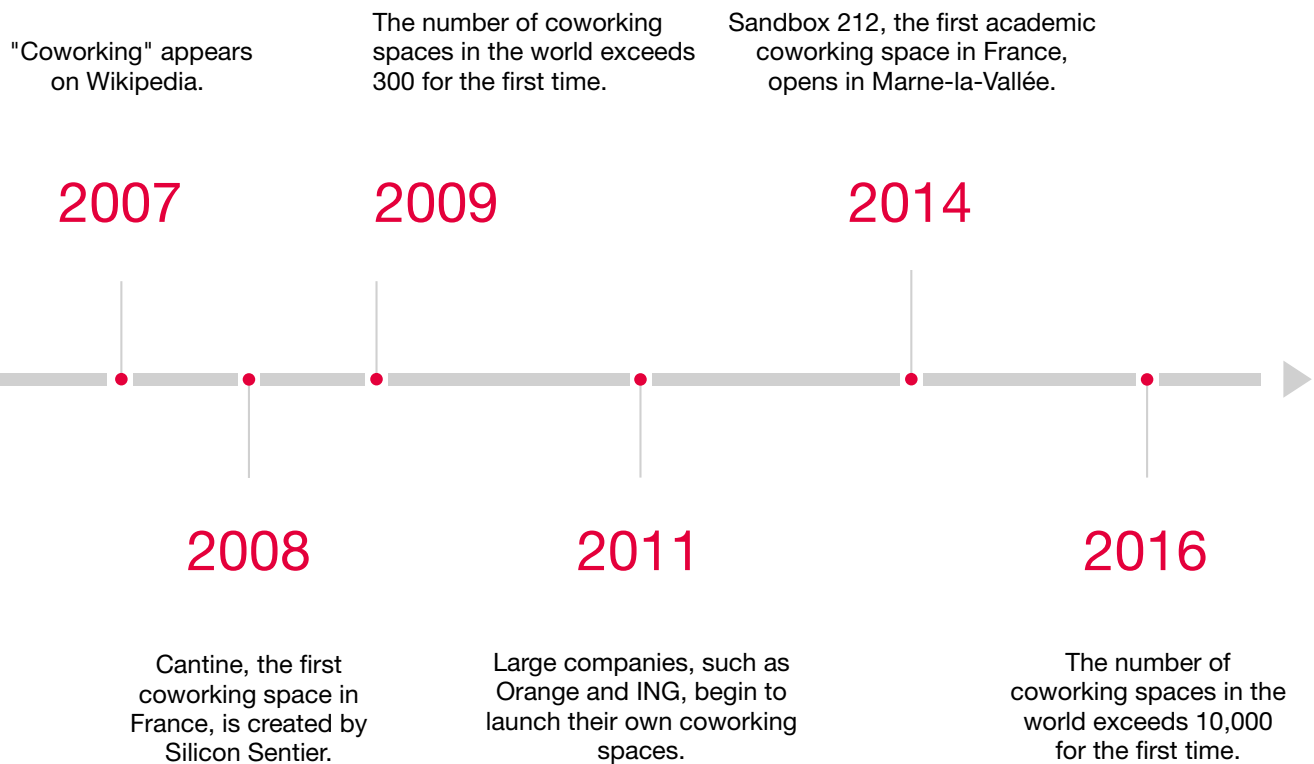
2005

1999

2006

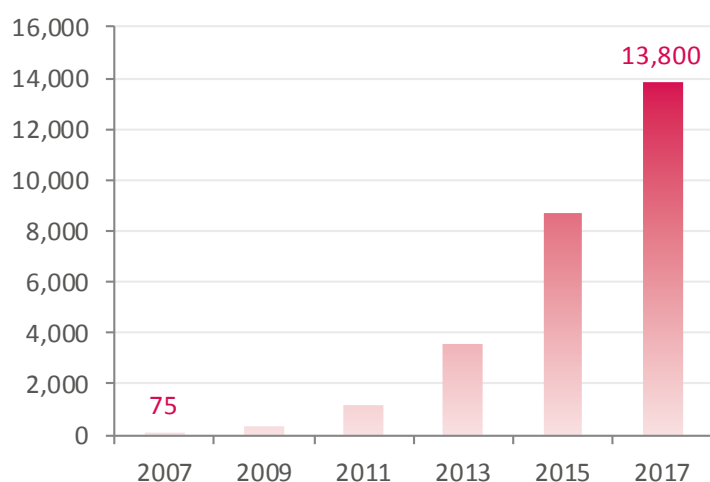
Bernie de Koven, an American game designer, forges the expression "coworking environment" to describe spaces promoting collaborative work.

Brad Neuberg, Chris Messina and Tara Hunt open the Hat Factory, the first coworking space with 24/7 access.
It is estimated there are already 30 coworking spaces worldwide.



LOCAL AND GLOBAL – A WORLDWIDE PHENOMENON

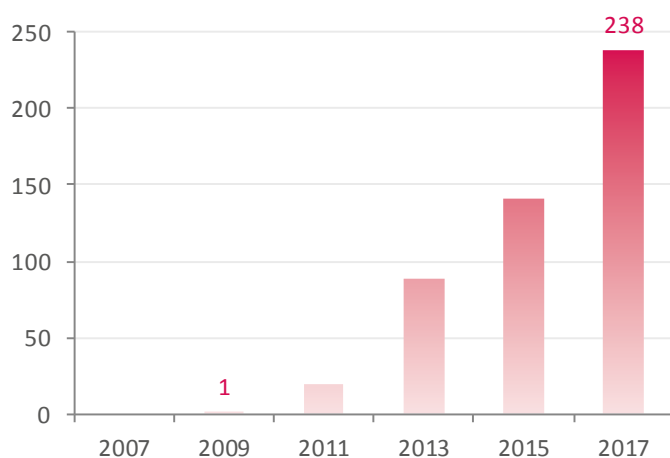
Increase in the number of coworking spaces in the world



+ 4.352%
since 2009

Source: Global Coworking Survey

Increase in the number of coworking spaces in the Paris region



+ 23.700%
since 2009

Sources: Knight Frank for 2017, La Fonderie and BAP for previous years

PARIS – STILL A LONG WAY FROM SATURATION

The Paris region:

only the 6th largest coworking centre in the world despite being one of the third largest tertiary hubs in the world

2015

Paris
81

VS.

New York
180

number of coworking spaces at the end of the year

+ 84 %

Inner-city Paris today:

coworking spaces in inner-city Paris in mid-2017

149

Paris has caught up very fast, due to:

The growth in startups,
since Paris stands out as the up-and-coming market in the international digital economy

The appropriation of coworking and its principles by companies of all sizes who want to appeal to Generation Y

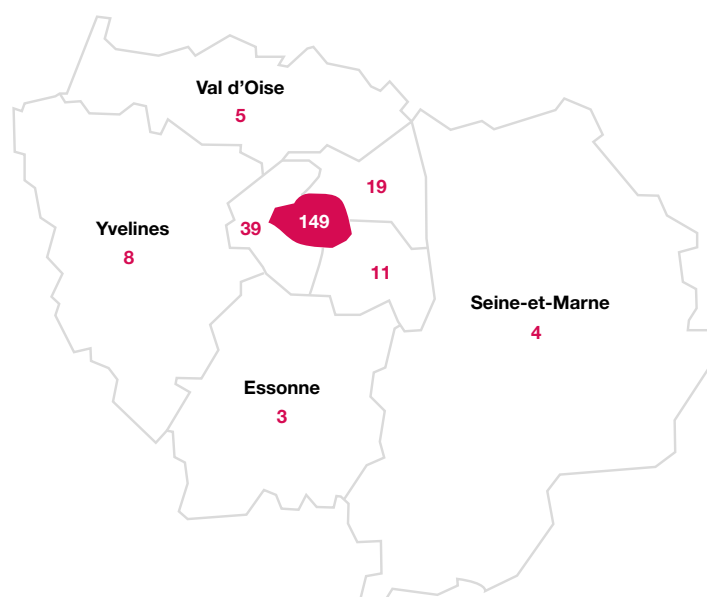
The emergence of large pure players in coworking, both national and international

2030 outlook: from 620,000 to 800,000 employees in the Paris region will work remotely according to ORIE and one in 10 will use third-party premises such as a coworking space. This could see demand for third-party premises increasing to **640,000 sq m**, or approximately 1% of total premises.

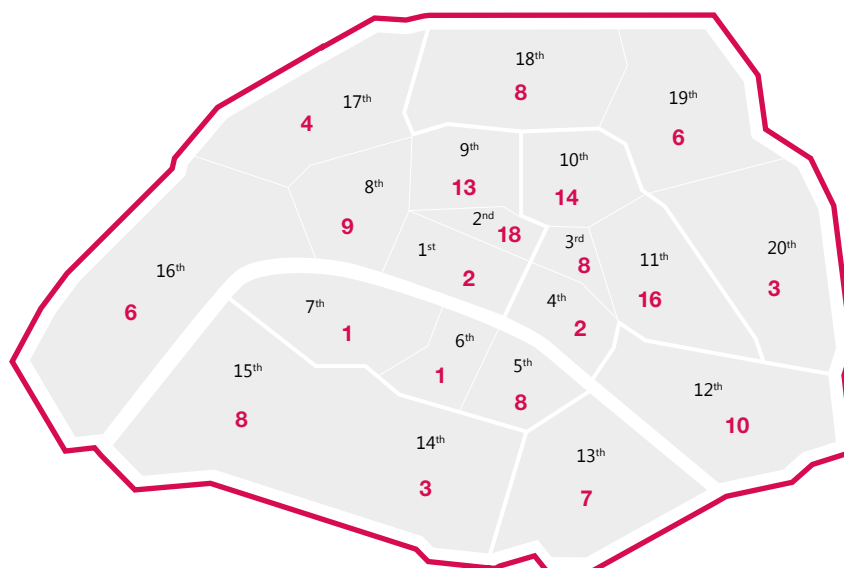
This estimate is no doubt conservative, since coworking already accounts for 1.2% of total premises in Manhattan.

2017 – MAIN FOCUS CONTINUES TO BE ON "BOBO" PARIS

Breakdown of coworking spaces in the Paris region in mid-2017

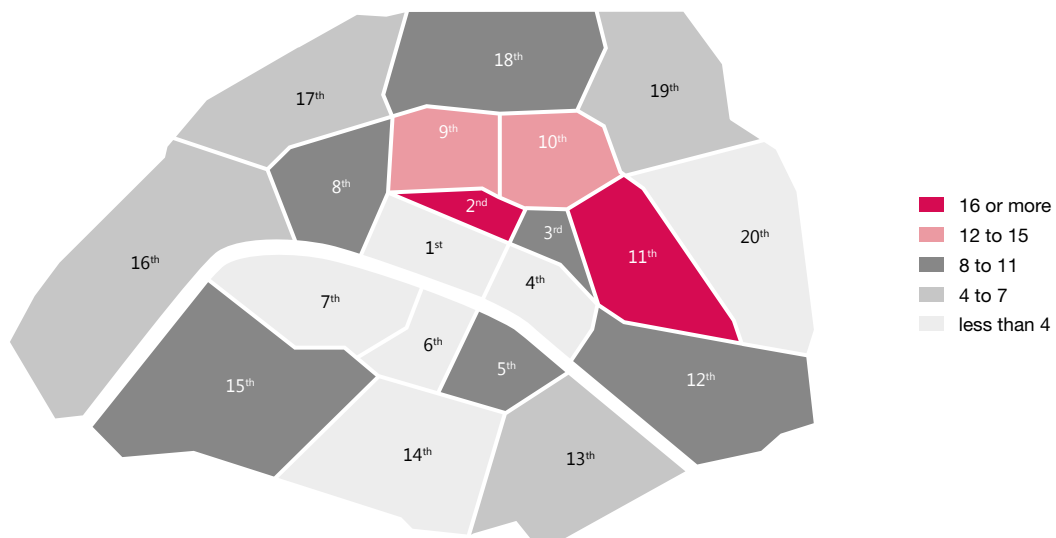


Breakdown of coworking spaces in Paris in mid-2017

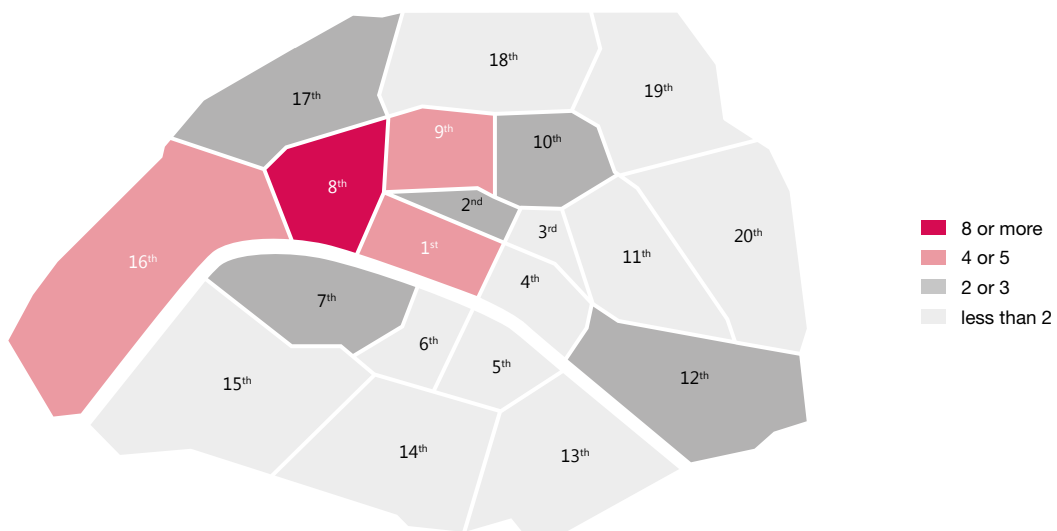


2017 – A PACT BETWEEN COWORKING AND BUSINESS CENTRES?

Coworking spaces



Business centres



2017 – A TRANSFORMATION IN COWORKING

Increasingly widespread adoption : of coworking principles: from law firms to large companies, no-one is now immune to this model. This is demonstrated by the fact that almost half of clients in France are now employees of a company.

Employee-clients
50%

VS.

Freelance/self-employed
50%

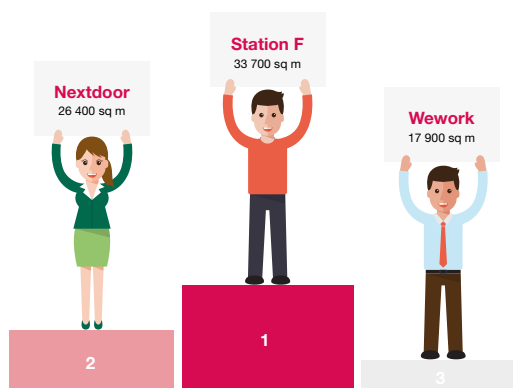
Increase in the number of workstations occupied per member, demonstrating the growing popularity of coworking among companies: At WeWork, for example, members now reserve an average of 20 to 25 workstations.

Increased professionalism of coworking, via the emergence of national pure players and the arrival of large international specialists.

Two of these players (Station F and Nextdoor) now manage surface areas larger than 20,000 sq m, while three others have exceeded 10,000 sq m (WeWork, Kwerk and Spaces).

Bureaux A Partager (BAP) is a major player in coworking, currently managing 30,000 sq m at 14 sites, but has a different positioning, particularly with pop-up centres (12 out of 14).

The three main coworking players in Paris (mid-2017)



Increase in the size of coworking centres: while many centres have a capacity limited to around 20 workstations, the number of giant spaces is increasing following the rise of national and international specialists.



Improved occupancy rate, as indicated by the most recent La Fonderie/BAP survey:

65% of spaces say they have a "good occupancy rate"

VS. **31%** in 2014

Emergence of "prime coworking" or "boutique offices", a luxury segment offering almost hotel-level services, far removed from the communal and participatory principles of the early days.

Increasing variation in prices in the Paris region:

from **€195** to **€650** excl. charges/month for a fixed open-plan office.

The average cost is falling, however, particularly due to fiercer competition, falling to €320 per workstation from €350 in 2014 according to the La Fonderie/BAP survey.

There is certainly a premium payable for a private office:

Multiplying factor of 2 (on average)

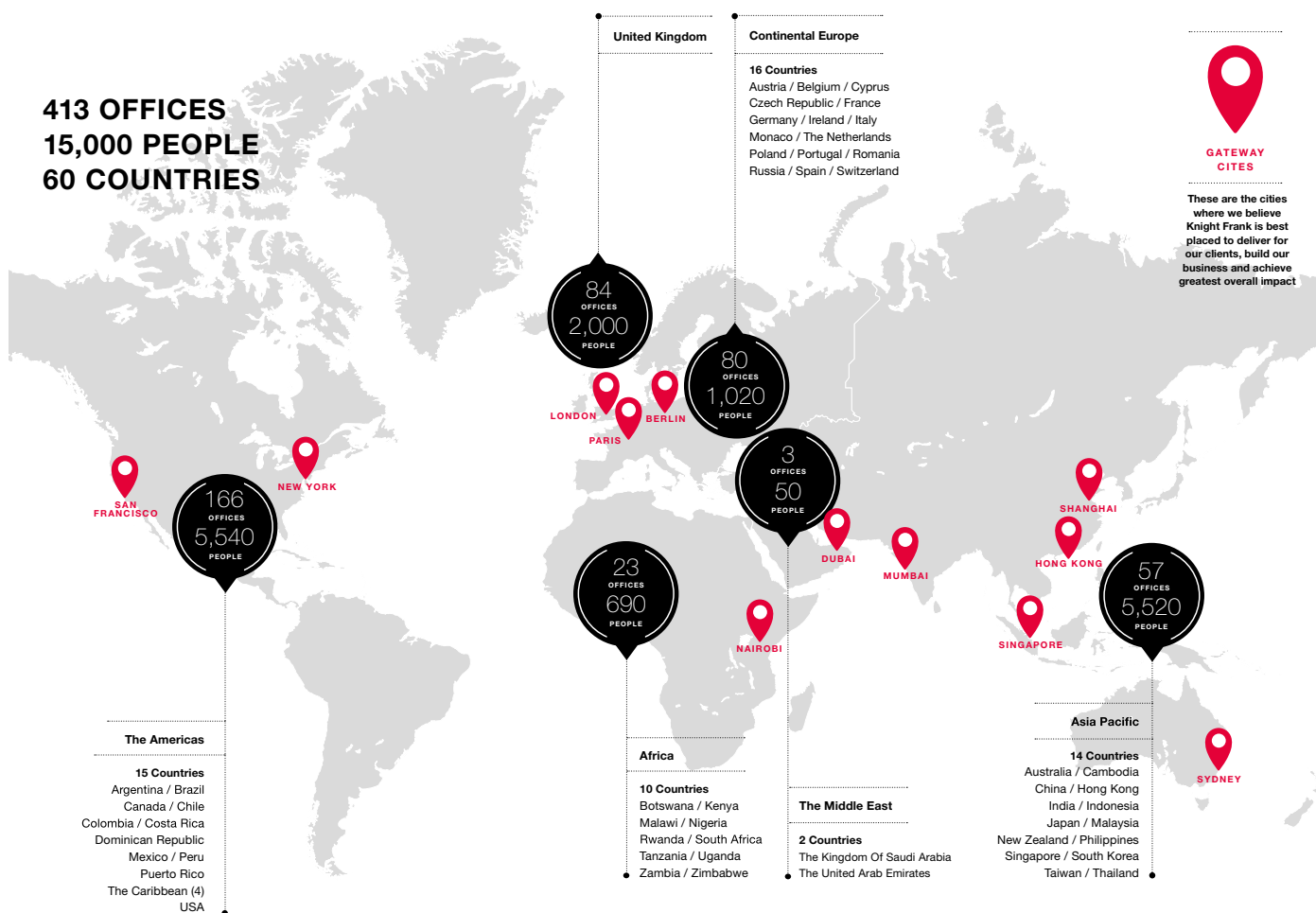
Beware the difficult age: just as teenagers grow up fast, the coworking market risks suffering from pubescent angst. Its success means that everyone is now embracing coworking, with the risk of it losing its meaning and its roots.

The emergence of **coliving**:

the Americans have taken the concept of coworking a step further by developing «work hotels» which are both work and living spaces. WeWork opened its WeLive in Manhattan in 2015, for example.

This solution is now coming to France, with the opening of @home in Ivry, close to Station F: Three 11 to 17 floor buildings will accommodate almost 600 tenants working at Station F in 95 sq m co-leased premises.

KNIGHT FRANK



Knight Frank is an international real estate advisor.

In France, the company operates in the corporate real estate market, mainly comprising offices, retail premises and industrial or logistics buildings.

Knight Frank France serves two separate groups of clients: owner investors and tenant companies.

Knight Frank France was founded over 40 years ago and is organised into six business lines: Offices, Retail, Capital Markets, Property Management, Knight Frank Valuation and L'Atelier Knight Frank (a spatial design consultancy).

The Knight Frank France team includes 80 professionals working from Paris. Historically specialising in the real estate market in the centre of the capital, the company has gradually widened its field of expertise and is now a recognised consultant in areas including La Défense and the Western Suburbs of Paris. The Capital Markets department, along with the independent subsidiary Knight Frank Valuation, also support their clients throughout France.

Knight Frank France is the French branch of Knight Frank LLP, a British company founded more than 120 years and now operating in 60 countries. It offers its clients the skills of its 15,000 professionals, working from 413 offices worldwide.

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Drawing on the constant support of its clients and its recognised integrity, Knight Frank is increasingly establishing itself as the consultant of choice.

