

Growth of large operators threatens existence of grassroots coworking spaces, study warns

September 14 2023



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The growing number of large operators and developers opening coworking premises threatens to end the availability of grassroots community-oriented spaces designed to bring isolated workers together,

a new study warns.

These coworking communities were originally set up to create serendipitous encounters, knowledge-sharing opportunities, and social capital. But the increasing numbers of big companies running flexible offices means they are less likely to offer services matching these aims.

Smaller operators see the incursion by large commercial real estate developers as a threat to the coworking market.

Researchers have found in the post-pandemic context that it is becoming more difficult for coworking providers who lack the financial independence to withstand increased competitive pressures, or for those who are unable to compete by means of diversification, discounted fees, or cross-subsidization to remain viable as businesses.

[The study](#), by Edward Yates, Greig Charnock, Frederick Harry Pitts, Jennifer Johns and Ödül Bozkurt, is published in the journal *Competition & Change*

The researchers carried out 44 interviews with co-working [space](#) owners, managers, and people involved in their local economies during 2019 and 2021 in Brighton and Hove, Bristol and Greater Manchester.

Dr. Pitts, who is based at the University of Exeter, said, "Independent coworking companies are adapting their [business strategies](#) in the face of competitive pressures from corporate commercial office space providers, who are increasingly using the branding and inside-space designs and aesthetics of coworking as it was originally conceived as an element of their growing flexible office space offer.

"They are increasingly compelled to compete with these larger providers by attracting and retaining 'enterprise clients' such as remote teams of

workers from larger companies, or even entire companies, to secure future flows of revenue in the short-term, flexible office space market."

The study shows even major coworking space owners and managers are consciously moving away from the original notion of neutral spaces occupied by freelance workers who seek the benefits of community and collaboration.

Researchers found three different coworking [business models](#) in the UK—spaces funded by an external organization or benefactor, larger spaces owned and directly operated by office real estate landlords as a component part of their operational portfolio, and those run by small, independent operators who do not possess a diversified portfolio of commercial real estate.

The expansion of large commercial flex-space providers has been driven by a decline in commercial clients taking out traditional leases on office space typically lasting five to ten years since 2016. This decline has been accelerated by the 2020 pandemic and the anticipated shift to more hybrid working practices and cultures.

A pressing challenge facing coworking space managers stems from the "pay-as-you-use" pricing model operated by most prior to the pandemic. This model was popular with individual users but did not provide "surety of income."

Larger, flex-space providers also use new streams of revenue from enterprise clients to cross-subsidize discounted prices for individual or early-stage start-up users. This dual pricing strategy is challenging for independent operators who could not cross-subsidize their offer in such a way, and need to grapple with the dilemma of whether to pass on rises in rent, energy, and business rate costs to users.

Dr. Pitts said, "Faced with increasingly stiffer competition from larger commercial real estate landlords entering the market, smaller coworking operators must adapt. They must be willing to innovate and diversify, to seek out whatever competitive advantage they can, or find some other means of compensating for their failure to remain profitable.

"Coworking can offer much to users as bases for community formation and as remedies to social isolation, as well as to city-regions as contributors to the tax base and as sites of skills formation. Spaces must remain viable as business in an increasingly competitive economic sector, and against a macroeconomic backdrop of increasing inflation and a longer-term failure by the central state to engage in proactive industrial planning for UK city-regions."

There are signs that the coworking bubble may be bursting, however. "The [financial difficulties](#) faced by WeWork suggest that some of the pandemic-era dynamics we picked up on may be on the wane," Dr. Pitts said. "But this exceptional case does not necessarily tell us where the coworking market will go next, as individuals and companies continue to navigate the post-pandemic world of work."

More information: Edward Yates et al, From coworking to competing? Business models and strategies of UK coworking spaces beyond the COVID-19 pandemic, *Competition & Change* (2023). [DOI: 10.1177/10245294231197798](#)

Provided by University of Exeter

Citation: Growth of large operators threatens existence of grassroots coworking spaces, study warns (2023, September 14) retrieved 14 June 2024 from <https://phys.org/news/2023-09-growth-large-threatens-grassroots-coworking.html>

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