



Retail

United States | 2018

Can coworking work at the mall?

*A first-ever study of coworking
in retail properties*

Retail Research Point of View



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point of view

Coworking is growing

Approximately 43.0 percent of employed U.S. workers work remotely at least some of the time, and JLL estimates flexible space will grow to 30.0 percent of all office stock by 2030.

This move toward shared office space and resources is a part of the larger trend of the sharing economy. Millennials—who value access to many goods and services over ownership—are leading the charge in the growing demand for shared products and services.

At the same time, large retailers are consolidating their store footprints and property owners are seeking opportunities to refresh retail space with new tenants, new looks and new uses.



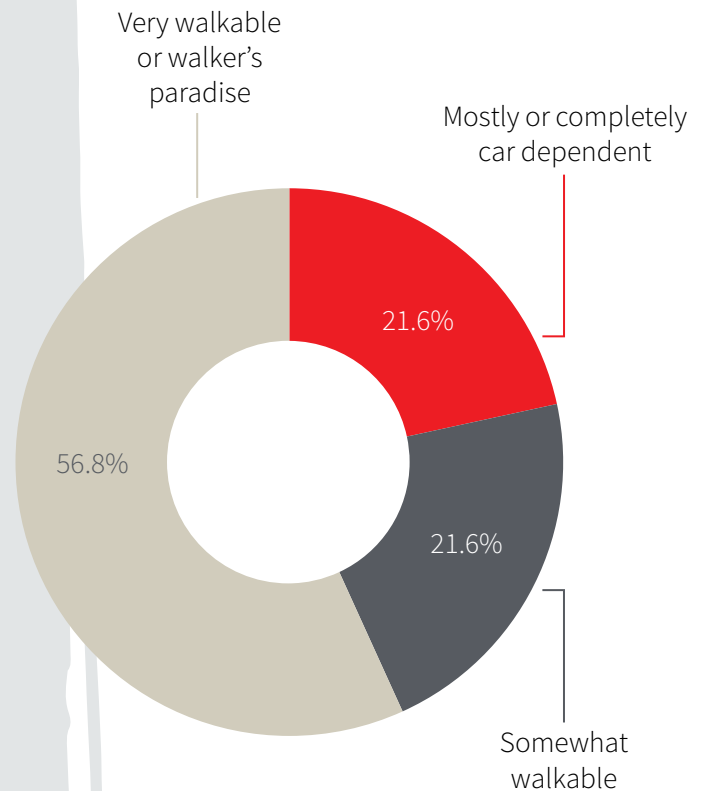
So, can coworking fill empty retail space in a profitable, impactful way?

To answer this question, we conducted the first-ever inventory of existing and proposed coworking locations in retail properties across the U.S. The 75 locations we identified constitute over one million square feet of retail space.

- Coworking presents a viable solution for vacant retail space by decreasing vacancy and driving additional foot traffic with a guaranteed daytime population. Added foot traffic may also help revitalize the center and attract new retail tenants.
- Given current expansion plans, JLL predicts that coworking space in retail properties will grow at a rate of 25.0 percent annually through 2023 and reach approximately 3.4 million square feet.
- Coworking spaces target mid- to top-tier retail properties in areas with above average household income. The average household income within a 3-mile radius of coworking retail spaces is approximately \$100,000.
- The majority of coworking locations are in malls, street front or urban retail with 54.7 percent of coworking spaces are located in the suburbs.
- The walkability of the neighborhood is important for coworking site selection. 33.3 percent of locations were ranked as a “walker’s paradise”¹, a score which indicates that daily errands don’t require a car at all.
- Coworking companies are increasingly integrating retail space as a perk for members. This also provides an additional revenue stream and elevates worker satisfaction.
- Coworking spaces that act as retail incubators enable smaller, nascent brands to come to market with exposure to an audience of millions of consumers per year, while enjoying the flexibility of compact, modular space and shorter leases.



Image Source: Shutterstock



¹ Walk Score (WalkScore.com) is a walkability index, which assigns a walkability ranking to every U.S. address.

The four types of retail coworking space

Within the 75 coworking spaces we studied across the country, we identified four distinct forms of coworking space. Each is tailored to different functions and targets members by offering a distinct set of amenities.

Across all types of coworking formats, more than half incorporated retail selling space within their walls. This coworking and retail mix is a burgeoning trend of multifunctional mixed-use spaces. This opens up opportunities for local, niche or startup concepts that do not have capital for their own location to flourish as part of a shared retail space.



Image Source: Shutterstock

We identified and named four distinct types of coworking space found within retail properties. Each is tailored to different functions and targets members by offering a distinct set of amenities.

They are Retail Launchpads, Telework Hubs, Business Boosters and Creative Coalitions.



Retail Launchpad

Retail incubator with demo space



Telework Hub

Comprehensive telecommuting hubs



Business Booster

Growth vehicle for entrepreneurs



Creative Coalition

Artists/Maker workspace

	Retail Launchpad	Telework Hub	Business Booster	Creative Coalition
Per person, monthly fee*	\$404	\$359	\$255	\$192
Avg. household income (3-mile)	\$129,862	\$96,616	\$105,916	\$96,338
Walkability score	99	70	72	78

Source: JLL Research
*Lowest price for month-long access



Retail Launchpad

Launchpads are unique in that they specifically target retail startups. They feature retail incubation and demo space where nascent brands and innovative tech companies can gain access to target shoppers. Retail Launchpads are concentrated in areas with high incomes—average household income is nearly \$130,000—top-tier malls, and very walkable neighborhoods. They are also the priciest coworking spaces with average entry-level price of \$404 per month.

This model is unique because of its ability to infuse the shopping center with new life by boosting the coolness quotient: makers, innovators and high-tech brands interact with consumers and offer interactive experiences that draw crowds with spending power. Launchpads make the mall a destination and more landlords will begin to develop these spaces within centers as part of an overarching strategy to modernize and remerchandise their properties.



Image Source: Water Tower Place, A GGP Property

Cowork at the Mall at Chicago's Water Tower Place

Cowork at the Mall is a new retail incubator concept opening in Water Tower Place this fall. Occupying 15,000 square feet, the space will be a mashup of coworking space, event space and merchandising space for retail and tech brands. It will host designers and inventors, where consumers can test new products and meet the makers. This virtual bazaar of ideas and innovation aims to transform the mall into a gathering place, where experience is the real draw and sales happen organically.



Image Source: Shutterstock



Image Source: Shutterstock



Telework Hub

Telework Hubs are the most common of the types, representing 78.0 percent of all our case studies. They are comprehensive telecommuting locations with a mix of corporate office workers, entrepreneurs and creatives. Telework Hubs are widespread and are found in a variety of markets, retail property types, and in trade areas with both high- and lower-income consumers. Nonetheless, the focus on corporate workers results in a higher than average monthly rate of \$359.

The Telework Hub model consists of such a wide cross-section of coworking companies and retail assets that it is likely that this is the coworking format that will backfill vacant spaces in mid-level retail centers. For instance, as Toys “R” Us closes its 700+ locations, particularly in power centers, landlords will look for alternatives to fill space. Telework Hubs represent a good solution. Not only are close to half of Telework Hubs located in mid-level retail properties, but larger locations in power centers average over 31,000 square feet—just around the footprint of a typical Toys “R” Us store.

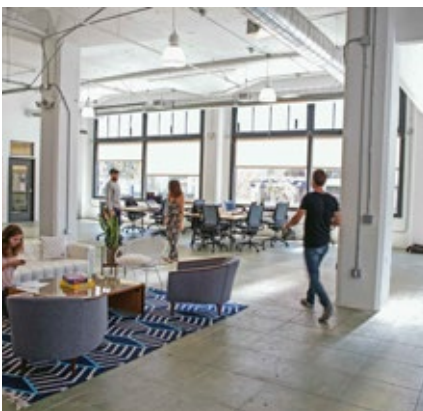


Image Source: Union Cowork

Union Cowork in La Jolla, California

Union Cowork is a neighborhood-centric coworking company based in California that actively looks for street front locations to sublet to micro-retailers, who take very small spaces. Walkable neighborhoods with retail-rich environments are the key focus for Union Cowork. Union Cowork’s North Park location in San Diego ties an active retail storefront with its coworking space. This particular location has a small flower shop that members walk through to get to the coworking space. Its East Village location, also in San Diego, is home to a corner coffee shop that, with its juxtaposition to the street, gets a good deal of exposure outside of just its members. As the company expands its footprint, it remains committed to incorporating local or new and innovative retail to its spaces. Its future location at UTC Mall in La Jolla will house a showroom for a Dutch furniture company.



Image Source: Shutterstock



Business Booster

Business Boosters are a growth vehicle for entrepreneurs and freelancers by offering special business development tools including capital, consulting services, creative support, specialty equipment, classes and mentors.

Business Boosters are split between urban and suburban areas and tend to be on the smaller side, averaging approximately 10,000 square feet. 70.0 percent of the spaces are in traditional street front retail buildings, community, or neighborhood centers in mid-rated properties. They are in areas with higher incomes with an average of \$105,916, but have a lower average monthly membership fee of \$255 per month. This combination of high-income members and affordable prices makes Business Boosters a good choice to backfill vacant space in mid-level neighborhood centers.



Image Source: CTRL Collective

CTRL Collective in Pasadena, California

Situated in a 22,000-square-foot building in Pasadena, CTRL Collective targets entrepreneurs and innovators at each stage of the business lifecycle. The company prioritizes cross-functional collaboration among entrepreneurs from different fields as a way of boosting innovation. Special amenities offered include mentors, venture capitalists, photo studios and 3D printers. The location also promotes a work-play culture, with a pet-friendly environment, recreation rooms, and valet parking.



Creative Coalition

Creative Coalitions offer community and workspaces for artists, makers and creatives, including supplying specialty equipment like 3D printers, welders, and dark rooms. 75.0 percent of these spaces are located in urban areas and are split between mid- to top-tier mixed use, theme or neighborhood centers. The majority of Creative Coalition spaces are in very walkable neighborhoods with a healthy concentration of Millennials and a great selection of dining and shopping options. The average price point of \$192 for a monthly membership is the lowest among coworking formats; understandably so, since their target audience is younger.

Creative Coalitions are advantageous for retail as they draw Millennials, who are becoming the most powerful consumers. These spaces also combine community events and retail within their space cultivating a destination that draws additional patrons and raises the profile of the property by offering new and enjoyable experiences.



Image Source: SpaceUs

Spaceus in Boston, Massachusetts

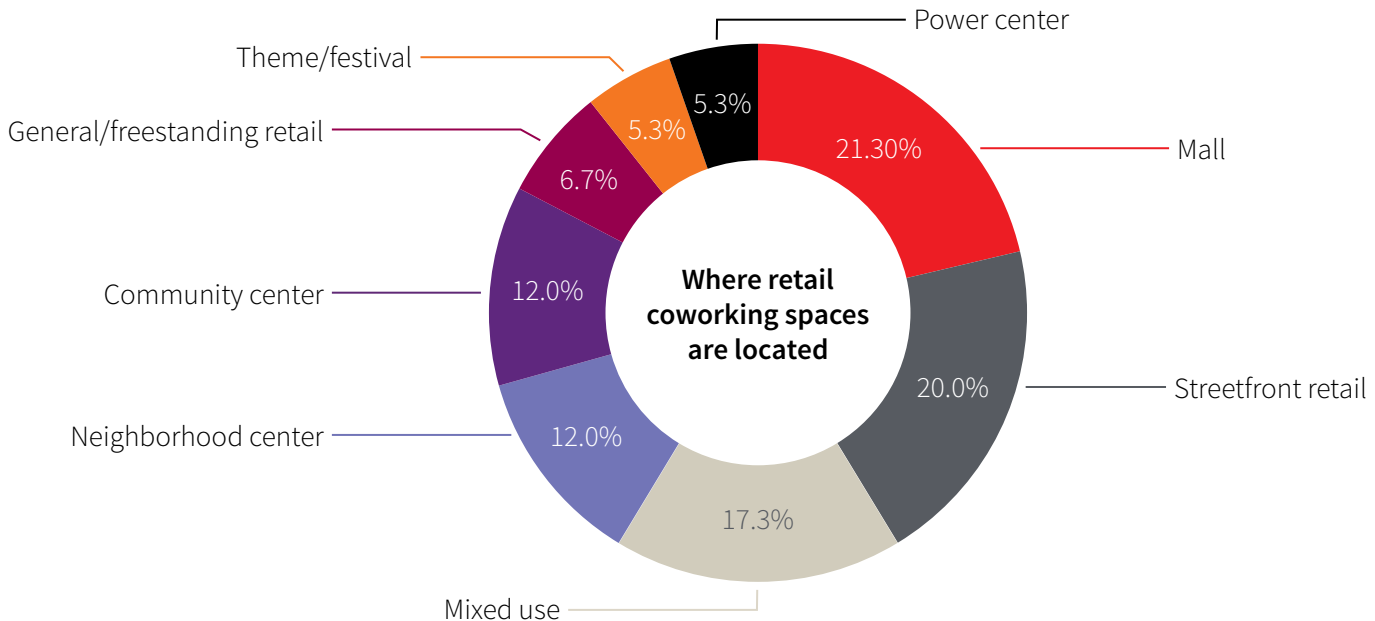
Spaceus is the brainchild of two MIT graduate students who saw an opportunity in the growing number of vacant storefronts and the lack of available workspace for artists. In addition to providing local artists with workspace, business-development events, classes and complimentary refreshments, the company will also incorporate retail at the front of its space so that artists can sell their work. Consumers are engaged through exhibits, public events, lectures and workshops and have the opportunity to interact directly with the artists. This model of combining coworking with retail showrooms, engaging the public and adding a stimulating, cultural experience to the center is one that will gain traction in the future. Spaceus ran a successful pop-up in Boston's Faneuil Hall Marketplace and will pop up at Roslindale Station through September.



Image Source: Shutterstock

Coworking spaces target malls, street retail and mixed-use

The majority of retail-based coworking spaces are located in malls, street front retail and mixed-use developments. Approximately 21.3 percent of retail-based coworking spaces we tracked are in malls which include lifestyle centers, regional and super-regional malls. Another 20.0 percent are street front and 17.3 percent are in mixed use projects.



Top malls are perfect for retail launchpads

Malls have several advantages for Retail Launchpads. There is generally good vehicular accessibility, ample parking and a large concentration and variety of retailers under one roof. Malls are also exceptional testing grounds for Launchpads where micro-retailers and startups are introduced to the public.

Coworking spaces tend to be concentrated in higher-end malls and tend to be in larger spaces, with average sizes around 26,000 square feet (the average retail-based coworking spaces are 16,400 square feet). This was of particular importance to coworking spaces that acted as retail incubators for emerging brands. Average household income was higher for these areas as well, which is generally true of most trade areas surrounding top-tier malls. Interestingly, malls with Retail Launchpad spaces had an average household income of roughly \$148,000 within a 3-mile radius compared with the overall average of \$113,000 for malls with coworking spaces, in general. This indicates that retail incubation is best suited to luxury properties where there is a surplus of higher-income consumers looking for out-of-the-ordinary products and experiences.



Image Source: Shutterstock

Urban streetfront locations are ideal for many workers

Streetfront retail offers unique benefits. Two-thirds of street retail coworking spaces in this subtype were in walkable neighborhoods. In fact, 80.0 percent of the street front retail locales in our study were very walkable, where most errands can be accomplished on foot. More than half were in a walker's paradise, where daily errands do not require a car at all. California—specifically, Los Angeles, San Diego and Orange County—is the most popular state for streetfront coworking locations with one-third of all locations.



Image Source: Shutterstock

Can coworking fill empty suburban retail space?

With recent closures, some landlords have been forced to get creative in backfilling vacant spaces—particularly in suburban power and neighborhood centers where more retail isn't always the answer. Coworking space is proving to be a viable solution to this issue despite the suburban location.

54.7 percent of coworking spaces in our research are in suburban locations. While coworking spaces skew to walkable neighborhoods, some of these neighborhoods are in the urban periphery of major primary or secondary markets. This concentration of coworking concepts should continue in the suburbs, specifically in mid-tier properties. In fact, 70.7 percent of coworking spaces in the suburbs are in low- to mid-tier retail properties; no doubt a function of lower rents and operating costs.

In addition, more millennials are starting families and buying homes, many of them in the 'burbs. In fact, buyers 37 years and younger continue to be the largest generational cohort of home buyers—at 34.0 percent. 52.0 percent of this group are purchasing homes in the suburbs². Since millennials play a major role in driving the growth of coworking, the fact that they are increasingly moving out of the urban core into suburbia means that more coworking spaces will open in these neighborhoods to serve them.

Most coworking spaces require neighborhoods with ample dining options as well as service-oriented retail. While walkability isn't a requirement for all coworking tenants, it is a major advantage.

Retail-based coworking spaces are successfully integrating work and play, bringing makers, workers, and consumers together and bringing new life and experience to retail locations. We expect further growth in these hybrid spaces where the synergy between coworking and retail is maximized. Retail Launchpads revitalize centers by constantly evolving with novel, unique offerings and introducing smaller, innovative brands to the market creating a new diverse marketplace. Other coworking models will continue to include spaces for online brands and companies unable to take the risk of opening a standalone store—adding to the variety of retail impacting the overall shopping experience.

² 2018 National Association of REALTORS® Home Buyer and Seller Generational Trends

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About JLL Research

Jones Lang LaSalle's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial Real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivaled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

About JLL Retail

JLL's retail experts partners with retailers, investors and owner/operators with an extensive team of dedicated experts around the world. They understand the inherent complexities and variability associated with both the retail industry and increasingly complex capital markets. Its specialists are recognized for their independent and expert advice to clients, backed by industry-leading research that delivers maximum value. With leading in-depth knowledge of the local, regional and global market dynamics, JLL aims to truly partner with its clients for the entire lifecycle of an asset or lease. Its experts deliver clients maximum value that support and shape their investment, site selection and brand strategies.

JLL is the largest third party retail property manager in the United States with more than 1,000 centers, totaling 125 million square feet under management. The firm has more than 140 retail brokerage experts spanning more than 30 major markets, representing more than 900 retail clients. In 2015, JLL's Retail Group completed transaction management and portfolio optimization on 1,500+ leases, negotiated 500+ leases for retailers and 1,000+ leases for landlords and completed more than \$2.7 billion of investment sales, dispositions and financing for investors. For more news, videos and research from JLL's Retail Group please visit: www.jllretail.com.