

Co-Working Spaces Set Their Sights on Suburbs

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FULL TEXT

Start-ups are betting that the pandemic has spawned a new kind of worker who wants an office space closer to home, without the long commute.

Paul Doran, a health care salesman, dreads the thought of commuting back to his office in Manhattan after 19 months of working from home in Jersey City, N.J.

But Mr. Doran, 33, also wants a break from overhearing his fiancée's calls and a better place to meet with clients than the local Starbucks. So he signed up for Daybase, a new company that is opening several co-working spaces, including in Hoboken, close to his apartment.

"It would take a couple more zeros on the paycheck," he said, "to get me back to commuting into Manhattan four or five days a week."

More than a year and a half ago, the coronavirus pandemic triggered an unprecedented disruption to the daily routines of office work, keeping millions of employees in their homes.

Now, as the pandemic crawls into a second year, the future of work is still up in the air as many companies have embraced a hybrid model, allowing employees to split their workweek between the office and home, with little clarity about the timing of a mandatory return.

In this uncertainty, a growing number of start-ups are betting that the pandemic has spawned a new kind of worker – one who will not be commuting into a central business district five days a week, but would still desire occasional office space closer to home for a distraction-free environment.

In the New York City metropolitan area, home to the country's largest office districts, co-working spaces are increasingly targeting the hundreds of thousands of office workers who live in the suburbs.

Some developers who own Manhattan office buildings have scoffed at the idea that satellite workplaces will become a permanent alternative to working from home or from traditional offices, believing the hybrid model is a short-term trend.

Still, the emergence of co-working spaces in residential neighborhoods underscores the uncertain prospects for New York's office sector and its role as an economic engine that supports a vast ecosystem of restaurants, coffee shops and other businesses.

The owner of Saks Fifth Avenue is partnering with WeWork to turn parts of department stores into co-working spaces. Codi, a start-up founded in Berkeley, Calif., offers private homes as flexible working spaces. Industrious, a co-working company, has an office space inside a mall in Short Hills, N.J.

Daybase, created during the pandemic by a group of former WeWork executives, is opening its first co-working locations in the coming months in the New York City area – Hoboken and Westfield, N.J., as well as in Harrison, N.Y.

The company is leasing vacant retail spaces, targeting densely populated neighborhoods where local residents had long pre-pandemic commutes and few other co-working options. Users can pay \$50 for a monthly membership for access to lounge areas or, for instance, use a desk for about \$10 an hour.

At the heart of Daybase's thesis is the idea that giving employees the flexibility to work from a suburban office space will ultimately attract a wider talent pool and make New York City more competitive with other cities. The

ripple effects would boost the region's economy, Daybase executives believe, part of an ongoing debate about whether New York City can fully recover only if workers return to Manhattan five days a week.

"Certain real estate owners believe the only path to prosperity is to bring everybody back," said Joel Steinhaus, a Daybase co-founder. "I don't follow that approach. If we're thinking about attracting talent to the region, this is more sustainable long-term."

In New York City, the real estate industry has been eager for workers to return to office towers. But many companies have discovered that they can operate with a smaller footprint as more jobs have become fully remote. Despite a recent uptick in demand for Manhattan office leases, the availability of office space there is still near a record high.

A recent analysis by Fitch Ratings concluded that if companies were to adopt just a day and a half of remote work per week, office landlords' profits would fall by 15 percent. At three days, income would be slashed by 30 percent. Jim Whelan, the president of the Real Estate Board of New York, a lobbying organization that represents major developers, said his staff has been required to work five days a week in the office since the summer. He believes buildings will fill up as cheaper commercial rents entice companies to lease in Manhattan again.

He questioned why employees would use a co-working site on their work-from-home days and brushed off the possibility of employees working remotely part of the week after the pandemic, calling it "your alternate universe." "Over time, we are going to work a five-day-a-week schedule," Mr. Whelan said. "There are signs that the commercial market is picking up in the pace of leasing and in terms of how many tenants are out there looking for space."

In the New York region, about 32 percent of workers were in the office in mid-October, according to Kastle Systems, a security company that tracks employee card swipes in office buildings. The percentage has climbed steadily since Labor Day, but is still half of what employers had predicted in a June survey by Partnership for New York City, a business advocacy group.

A bigger reckoning around office space may unfold in the coming years, as an estimated 30 percent of leases at large Manhattan buildings will expire by 2024, according to the New York State Comptroller's Office. One major question, economists say, is whether larger companies will hold onto their office space to guarantee seats for all employees, no matter how many days a week they come in.

New York City's office buildings are worth an estimated \$172 billion and provide about 20 percent of the city's property tax revenues. As new leasing plummeted during the pandemic, the value of the buildings dropped by \$28.6 billion, the first decline in at least 20 years, according to the New York State Comptroller's Office, costing the city more than \$850 million in property taxes.

For many employees, the reluctance to return comes down to the commute.

Workers in the New York region had the longest average one-way commute in the country at about 38 minutes, according to 2019 census data. About 23 percent of workers in the region commuted at least an hour each way. In June, Tom Hebner, a vice president at NeuraFlash, a consulting firm, relocated to a co-working space operated by Serendipity Labs in Ridgewood, N.J., where he lives. He said he was reminded of the benefits whenever he visits the company's New York City office, a round trip that can take up to three hours.

"I'm the only guy in the suburbs who can walk to work," said Mr. Hebner, who works at the Ridgewood location every day with three other NeuraFlash employees.

John Arenas, the chief executive of Serendipity Labs, said that when he founded the company a decade ago, his pitch for co-working spaces in the suburbs failed to take off because the corporate world strictly adhered to a five-day workweek in a central office.

Since the pandemic hit, Mr. Arenas said, more than half of his revenue now comes from companies that pay for employees to work from a co-working location in the suburbs as a perk.

Savills, a real estate firm, has found through surveys of its corporate clients that many employees relocated to the suburbs during the pandemic, prompting companies to seek out Manhattan office spaces near transit hubs, like Pennsylvania Station. But it has also led employees to demand more flexibility to work from home.

Offering co-working spaces as a perk could risk creating a fractured work culture where employees feel disconnected from the main office and more willing to switch jobs, said Rebecca Humphrey, an executive vice president at Savills.

"If you're not a company that has a very strong sense of your culture, an approach like this can really fail," Ms. Humphrey said.

Co-working spaces in the suburbs are particularly appealing to parents who want more separation between home and work, Daybase said. In its surveys of prospective customers, the biggest complaints about working from home were the lack of space, unreliable internet and noise (leaf blower day, in particular).

Daybase plans to expand nationally through franchising, seeking out spaces that are close to grocery stores, child care options and gyms, with the hopes that workers use the offices as part of a broader daily routine.

Mr. Steinhaus, the Daybase co-founder, sees the company as a supplement, not a threat, to the traditional office building. In fact, Daybase itself started leasing office space this summer in a tower near Grand Central Terminal. The company organizes its meetings and happy hours around Wednesdays, the designated day when every employee comes into the office.

"The office building is not going anywhere," Mr. Steinhaus said. "We're just going to use it differently."

Photograph

Paul Doran, a health care salesman living in Jersey City, N.J., used to commute to an office in Manhattan. He has not returned since March 2020. (PHOTOGRAPH BY James Estrin/The New York Times FOR THE NEW YORK TIMES)

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