Flex Space: What’s Next in Office Leasing?

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In order to position their organizations to attract top talent, drive breakthroughs, and serve customers better, employers need to understand and prepare for the evolution of the workforce. The sooner organizations adopt the future-focused mindset, skills, and strategies needed to thrive in an increasingly virtual and flexible work environment, the sooner they will realize economic benefits. In this presentation, leaders will learn how to position their organization to be innovative and responsive for attracting and retaining workforce talent. In this session, you will:

- Learn how to capitalize on and manage changing employer-employee relationships and workplace attitudes
- Adapt your workplace to a commitment-based work model and enforce a culture of learning
- Keep a blended, multi-generational, diverse, and global workplace engaged

Maggie Coleman
Managing Director, Americas

Summary
Maggie Coleman is a Managing Director and Head of International Capital, Americas. In this role, Ms. Coleman leads a team that is primarily focused on cross-border capital deployment from global investors across Canada, EMEA and Asia Pacific. Ms. Coleman is responsible for placing capital from international investors into JLL’s direct transactions, structuring recapitalizations and joint-ventures, while also helping offshore capital acquire and finance JLL’s global investment portfolios and large single asset sales. Ms. Coleman maintains relationships with senior decision-makers at a wide range of offshore capital sources ranging from institutional to private capital groups.

Ms. Coleman has been involved in over $20 billion in transactions and has directed the JLL platform that has executed over $30 billion in transactions since 2011, including over $10 billion in loan sales in the US, Europe and Asia. Further, Ms. Coleman is responsible for business development, client management and the execution of global transactions. She is a frequent speaker on global capital flows in the real estate sector.
Agenda

• Intros
• Objectives/Context
• Panelists
  • Laura Kozelouzek – Quest Workspaces
  • Laura Sidney – CBRE Hana
• Q&A
• Where is Flex space going
Laura Kozelouzek
Quest Workspaces

Laura Sidney
Hana | CBRE

Cynthia Milota
Ware Malcomb
Definitions / Context

What is Flex Office Space

Coworking
Serviced Office Industry
Workspace as a Service
Business Centers
Maker Space
Incubator Space
Flexible Corporate Offices
Neighborhood Jump Start
Start up Space
Entrepreneur Zone
Third Space

https://www.coworker.com/lab/what-is-coworking/
Flex Offices…The Start

Executive Travel Suite

Alternative to WFH

Entrepreneur – Start Ups

Working alone together:
- Builds community
- Provides resources
Flex Offices….CRE Disruptor

Enterprise Scale

Satisfies demands of:
• Societal changes
• Global economy
• Digitally savvy workers*

Targeted Membership

The Wing
The Ministry of Sound
KPMG Club
RBS Rocket Space
The Battery

Amenities

Before
- Coffee
- Beer & Wine

Now
- Kombucha on Tap
- Onsite Clinics
- Child Care
- Yoga
- #FarmtoDesk
- Roof Amenities
- Beauty Rooms
- Peloton Studios
Leasing

- Short term
- Third party
- Flex Leases
- Joint Venture
- Single Purpose Locations
- Non-Competes
- Custom Deals
- Restructuring Ownership
Redefining corporate space options & lease transactions

Flexible Space…
Is It The “Fourth Industrial Evolution”
LAURA SIDNEY

Head of Broker Relations
Hana, A CBRE Company
Changing Consumer Expectations
Agility is Flexible Terms & Experience

AGILE REAL ESTATE
85% of CRE execs anticipate using agile solutions going forward

WORKPLACE EXPERIENCE
88% of top-performing talent want more control over their work experience
Significant Flex Growth

Projected growth is from enterprises looking for private flexible offices.
One third work in a place that doesn’t inspire them

Source: CBRE Research, 2018
Introducing Hana

- Work (Hawaiian)
- Hope (Kurdish)
- Flower (Japanese)
- Happiness (Arabic)
- One (Korean)
- Grace (Hebrew)
An Emphasis on Experience

High-End Furniture from Herman Miller
Sit-Stand Desks
Dedicated Climate Control
Greenery & Natural Light
Quiet Space for Deep Concentration
Acoustically Treated Office Suites & Workspaces

Brian Harrington
Hana Chief Experience Officer
LAURA KOZELOUZEK

Founder & CEO of
Quest Workspaces
COMMERCIAL REAL ESTATE CYCLES AND FLEX SPACE

**Historically**
- Pro-tenant to pro-landlord
- Lower TI concessions
- Less free rent
- Lower ROI
- Higher market rents

**Boom Time**
- ↓ Vacancy
- ↑ Rates

**Recession**
- 1990
- 2001
- 2008
- 202?
- Vacancy increases, traditional office rates drop
- Client gives back space, renegotiate or break contacts
- New locations at risk
- Renegotiated leases
- Increase competition- New sublets (and now coworking)
- Office owners offer flexible solutions

**Post Recession**
- Experienced/financially-strong Operators survive:
  - Mitigated risks prior to recession
  - Successfully navigated and operated through downturn
  - Cash strong
- Period of new accelerated growth

**New Dynamics**
- Increased awareness and demand
- Increased competition driving down rates and increasing vacancy
- Many operators will not see return on investment
- Affects of sharing economy

- Clients more able & opt to move
- Rent free workspaces prevalent
- Home office and mobile working rise

- Alignment between owners and operators
- New underwriting parameters
- Landlords fully embrace flexible serviced workspace and amenities
COMMERCIAL REAL ESTATE CYCLES AND FLEX SPACE

• What role will Owners play going forward?
• Will they be fearful of flex space, or further embrace it?
• How will lenders react?
• Will the % of flex space increase in buildings, or will there be a pullback?
• Possibly more JVs and participation leases so that owners and operators are more aligned?
Flex Space Fundamentals and the Future

- Industry is susceptible to real estate cycles
- We go long, they go short (traditional leases)
- Need to be mindful of base rent rates
- Risk mitigated through lease structure
Flex Space Fundamentals and the Future

How we mitigate risk, and remain profitable

• Self-funded growth - no debt
• Low corporate overhead (lean and mean)
• Focus on cashflow and ROI
• Make use of 2\textsuperscript{nd} generation space - strike better deals for all
• All new locations cashflow positive in year 1, most happen by month 2
• Not the time for rapid growth - rates too high, too competitive
• Creative lease structures - JVs and management contracts
• Majority of portfolio below market on master leases
• Limited exposure - with largest clients
• Strong loyal client base (longer term agreements, deposits)
• Boutique-style management and service
• Not necessarily sexy, but sustainable
Flex Space Fundamentals and the Future

What does the future look like?

- Demand will increase. Flexibility is the future and will continue to be the greatest driver.
- Small space demand will continue to increase.
- How much flex space in a building will depend on how comfortable banks are with the underwriting.
- Tenants will continue to pay higher rates for flexibility, move-in ready, amenities.
- Further segmentation.
- Possible bankruptcies, consolidations and roll-ups.
Q&A
Look Ahead*

• Here to stay
• Location
• Differentiation
• Consolidation
• Design
• Wellness

*Liz Elam – Founder CGUC & Partner Co.RE