
Will this marriage last?

Time for office owners and operators to get serious about this relationship

One of the most universally admired celebrations in marriage are the big milestones of 40, 50, and 60 years. All of us recognize the kind of commitment, compromise, interaction, and individual and collective growth required to get to those celebratory points. And it is equally jarring to learn of a couple that has been married that long and then “suddenly” divorcing... How? Why? In some cases, we find out that there were signs of relationship neglect, people slowly growing apart, etc... until one day it was gone. That is the inflection point where we find the long-standing relationship between office building owner/operator and its occupier.





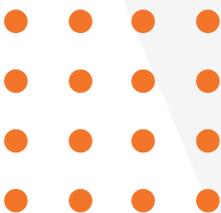
It has been a long run: From the beginning the “marriage” between owner and occupier was formal and unemotional, a natural business transaction between builder and operator of work space and companies who did not want to be in the real estate business but required a place to accomplish “work”. Companies had predictable, decades long life cycles with little inflection and a corporate structure that paired well with customized physical spaces (even though they mostly looked the same) and lengthy leases. And owners needed that in order to appease lenders and future buyers and handle the upfront capital-intensive nature of getting these companies situated in customized space.



And then something changed: That something was technology and change in the composition and lifecycle of companies and their ability to increasingly get “work” accomplished outside of one dedicated environment. This change also birthed a new generation of workers: ones that grew up with this technology which influenced their education and eventually their outlook on how they wanted to shape their careers.



The signs of struggles have been there: While the world of companies has changed dramatically, the mindset and approach of owners has remained mostly unmoved. Instead of really studying and evolving the operation of the asset to match the occupier, the industry simply doubled down on the decades old approaches to lengthy contracts and inflexibility.

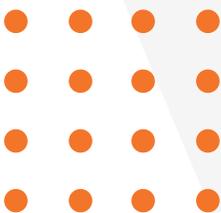




Then came the sponsored affair: 10-15 years ago, the time was perfect for coworking to arrive on the scene. It seemingly had listened to all of the things the occupier had been craving and offered a dynamic, flexible set of solutions and frictionless transaction. But what was really perplexing was the owner's response, not the expected, "uh-oh, I'm going to be better". No, it was generally, "This is just a fad and I am not changing, but why don't we redo that little room in the back so that they have a place for you two when they come over." They did not love it or agree with it, but assumed it was going to be gone soon and back to "normal". And while one size never fits all, the dismissive, it's-a-startup-offering assumption, missed the evidence that this solution was attractive to companies of all stages and had the dexterity to be customized to each.



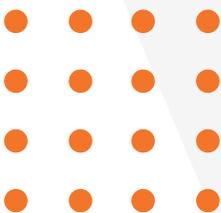
Armageddon: The "affair" with coworking, for the owner, was perceived as expensive and inconvenient but they still treated the occupier like "you need me... you can't leave". They couldn't – it would be impossible to get work done without dedicated space... until one day inexplicably thanks to an unforeseen world event in the form of COVID, the occupier got thrown into the crazy "office-less" world. And while it was not completely perfect, it was a game changer and forced the lightning fast acceleration of "work from home". Office owners, realizing the strained nature of this relationship, are figuring out how to make their assets more livable and safer in order to get occupiers back soon (who wants to pay for space they are not using), but with each passing day, the permanent nature of this new work space allocation becomes more evident.



Now what? No time to lose for the owner: At least for me, there are those ego crushing and humbling moments in life when I realize I have been so wrong about something, and there is no acceptable way for me to move forward without a sincere apology AND 180 degree change in behavior to match my words. So where does the owner of office go now?

1 Figure out how to reduce and eliminate friction in transactions: If you were put through, as a consumer at a store, what we put occupiers through to rent office space, you would never go there again. There are smart ways to protect the asset and financial risk without putting your occupier through the equivalent of real estate waterboarding.

2 Operations key: A new wave of dynamic, strategic thinking office operators have to emerge capable of running all work product types (term, flex, coworking) as occupiers do not love running all over an asset working with separate groups for different kinds of space. There will always be a place for separate coworking operators, but for large owners of large assets, there is too much at stake to either outsource this task and/or not do it at all.

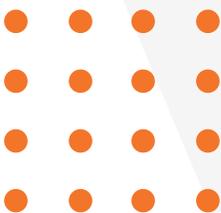


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Hospitality as a core competency: Assets have to become more dynamic environments, and that always popular term of “hospitality” is now critical to success. It will impact the intentionality of what physical changes to the asset are contemplated – you will build what is necessary to operate that hospitable ecosystem. A unified team running the entire asset is best equipped to offer the occupier a dynamic, safe, and adaptable environment – one that they once again view as critical to their continued success.

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A new way of thinking about revenues: Big office assets will always require a sophisticated operational approach, inclusive of a thoughtful and proactive approach to technology that leverages resources and personnel while enhancing user experience. However, a mind shift is required to pair this hospitality focus with a quickly evolving revenue approach. Long term rents we know are at risk and thus new and defensible revenue streams will be required. And while they may not come in the form of 10 year fixed and growing rents, they will prove over time to be dependable and needed pieces of owner’s cash flow and value.



The truth is the occupier has their hands full right now. There has never been a tougher time to exist as a company. Many times, they simply cannot even convey their workspace needs because they are not sure themselves. Therefore you need to control the entire entire of options they require – to accommodate them while reducing your financial exposure. That value, while it will take a minute to flush out, will unlock new and unexpected reasons for this “marriage” to not just survive but thrive.

Relationships that are meaningful require a lot of work, especially those at risk of ending. But for owners, that fear should induce a sense of conviction, commitment, and urgency to figure it out and emerge out of this unprecedented moment ready for a much better next 40 years.



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