WARNING: this case study is based on an absolutely real and current scenario

There it is - the perfect office asset that checks all the boxes:

the absolute best - poster child of "flight to quality", in the most dynamic part of the most vibrant big city suburban submarket. It is walkable with all the normal amenity trimmings next to all the places the cool kids hang out. Afterall, in its brief prior life it was custom built for the headquarters for one company (i.e., overbuilt in a way a real estate developer would never do). They have moved on and the new owner has now for years, produced the normal marketing material for multiple floor users at aggressive rates and patiently sat with their catcher's mitt ready to field inbound inquiries. To date, those efforts have produced a measly 60% occupancy, deemed to be acceptable given current market conditions and their willingness to "wait" for groups that appreciate this tower and its rates.

Challenge: In this world, a local self-made, high growth company with staying power has quickly outgrown the custom headquarters they built for themselves in this same submarket. The nature of the interaction between owner and this 2-3 floor prospect has gone something like this:

"Joe, we know you're out of space, and our tower is so close to your existing building – let's get you into 3 floors over here so that you have all the space you could ever need or want," confidently declares the owner.

"Bob, I know, but I've got a special culture I control over here that I'll lose. People love the food trucks we have and the feel here." States the CEO of this growing company.

“Oh, we can have some trucks pull up too. And have you seen our lobby and amenities?” the owner comes back with, not really, fully digesting the weight of that culture comment.

“Well, you sure are proud of that building. $32/SF?!? That’s outrageous. I’ll make what I have work a little longer and I’m going to look around the market because I think I can find a better deal,” combats the CEO of this growing company.

And that’s what is happening. This general dialog has slowly gone on for likely a year or more with neither side any closer to solving their individual problems and with the passage of time escalating the seriousness for both… for the owner a lingering occupancy level that has yet to reach the sweet spot for breakeven and profitability and for this high-growth CEO, increasingly problematic space needs that could soon start to compromise the culture he’s spent so much energy cultivating.

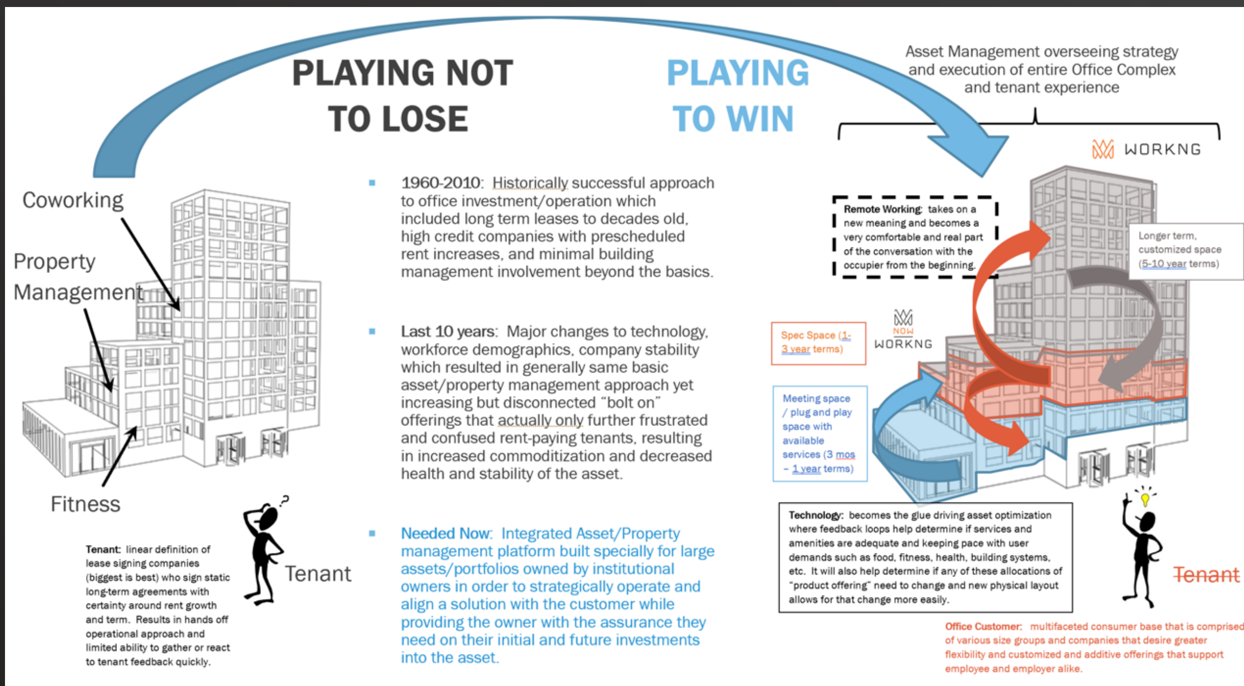
Flex-Oriented Solution: Let’s pretend that this same owner three years ago had converted the bottom of the building into coworking and spec space (i.e., flexible offerings – my recommendation is 5-10% depending on vision and appetite for the “flex starter kit”)… most owners’ most problematic space to lease and usually the last to go. But they had built both the physical space, the operational team and the cohesive technology simultaneously. Here’s how that conversation could have now taken place:

“Joe, what an exciting time to be you and your team. Your growth is exciting and beyond what you ever imagined when you built this dynamic HQ. I know a tower like we own and operate is the last place you wanted to go but it sounds like you’ve discovered that managing your own real estate and company growth has a low ceiling. We want to get to know your company from a place of mutual benefits. Let’s do this – didn’t you say you have a department that is just about homeless? Let’s get them into one of our furnished spec spaces for the next 12-24 months. At $38/SF, you and I both know it wasn't designed to be a long-term solution but it also hasn't committed you to more space and time than you need. But by being in there, you'll have access to our conference space and even more short-term space in our co- working space – in other words our size means you truly can't outgrow us. And it won't take your team long to discover that not only do we have amenities but a full array of activities that are corporate driven and very much in line and consistent with your culture-driven priorities. This is about establishing a relationship and preserving the right to grow it into something mutually beneficial for both of us long term. How does that sound?" confidently states the inspired and better equipped owner.

"Ummm... I'm speechless. The reason I built my own complex, in some ways was owners' inability to listen to and align solutions with our needs. Had what you just said been said earlier, it's possible I wouldn't have needed to build my own headquarters. If what you're describing was to work, that means your asset, besides being more actively curated, is actually capable (and has a team prepared to execute this) of handling my current and future requirements. I will take you up on this bet you're taking and if you can prove out what you're claiming, I have a feeling I won't even need that 12-24 months to do something more permanent" stammers a still happily perplexed CEO.

Takeaway: The common response from owners as it relates to "flex" and "hospitality" seems to be either "I don't need it" or "I'm already doing it." But to me, this case exemplifies a repeatable opportunity to leverage flex and operations to: accelerate leasing, improve retention through appropriately sized deals and better relationships, and superior economic results for the owner and lower spend for the user. Many are talking about this, but I don't see it coming together in one clean package that truly gifts occupiers with a complete and dynamic solution offering that accelerates their path into the asset while diminishing the likelihood that they ever want to leave it.

Picture worth (almost) 1000 words:



Sincerely,

Mike Fransen

Founder / CEO, Workng