The Commercial Landlord's Guide to

Flexible Office Space

LAUNCH WORKPLACES

INTRODUCTION / GUIDE

With a pivot towards flexible office space seemingly inevitable for commercial landlords, the question these days is changing from “when” to “how.” And recently, we’ve seen a notable uptick in the volume of inquiries we’re receiving from commercial landlords wondering what they need to do to get into the flexible office business.

In this comprehensive guide, you’ll learn everything that you need to do as a commercial landlord to break into the flexible office industry and transform your building into a profitable professional hub, including:

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The Commercial Landlord’s Guide to Flexible Office Space

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3 Questions to Decide Whether Flexible Office Space is Right for Your Portfolio

If you're wondering whether or not flexible office space makes sense for your portfolio, here are three questions to help you decide.

What Industries Are Your Tenants In?

Across almost every single industry, having a "work-from-anywhere" policy, in some capacity, is going to be in effect shortly.

From NASA to the U.S. Department of Homeland Security, even government agencies are embracing remote work.

So, unless your entire portfolio is packed with tenants that simply cannot do their jobs from anywhere except the office, there's a good chance full-time in-office work won't be the only option they offer down the road.

What Does the Future Hold for the Majority of Your Tenants?

During this time of transition, it's easy for companies to say that they won't allow employees to work remotely. But that won't last.

It's not what employees want. And in the modern, post-pandemic employment market, employees ultimately dictate how businesses operate—not the other way around.

The second your tenants start losing key employees and finding it tough to replace them because they've mandated 40 hours of work per week in the office, their outlooks are going to change.

And as the inevitable pivot to working from anywhere takes over, your tenants are going to need to respond accordingly—by scaling down their office space to accommodate their staffing needs.

So, even if you don't have any lease termination dates coming up in the next few years, it's still time to consider what the future holds.

How Will You Handle the Future in Your Buildings?

There are an overwhelming number of commercial real estate firms that have nobody at the helm when it comes to future-proofing their buildings.

It's true that things don't change quickly in commercial real estate, but the change has already started.

While you will have tenants who decide to renew their leases when their termination dates roll around, it's difficult to say where they'll renew for the same amount of space. However, the odds are unlikely.

When that happens, you might find yourself with a whole ton of open space asking yourself what to do next.

And your options will be to:

- Do a deal that costs you hundreds of thousands in tenant improvement allowance, a month of free rent for every year of the deal (all delivered up-front), and broker commissions on a 10-year deal

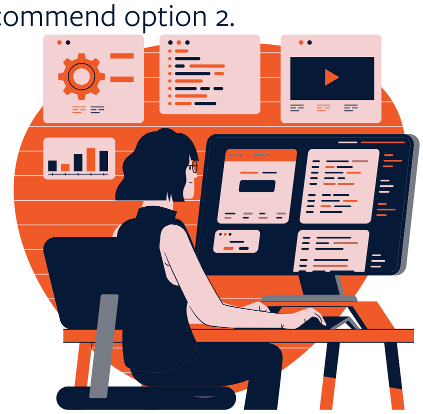
- Decide that, since rates are down, concession packages are up, and you don't want to do long-term deals, you'll just leave it dark and close the doors.
- Partner with someone who can help you go flexible rather than trying to lease out one high-square footage suite.

At the end of the day, if you're not among the 1% of portfolio owners who have buildings filled with tenants who are immune to the work-from-anywhere movement, you'll eventually have to ask yourself whether flexible office space is right for you.

And you can either:

1. Ignore flexible office space and slowly watch your building become a commodity where its value is based on price and term compared to every other commodity office building in your market.
2. Do something about it and start to create a flexible strategy for your portfolio.

We recommend option 2.



The Importance of Proactively Future-Proofing Your Building

What are the potential risks of neglecting flexible workspace options in your building?

While it's still possible to survive without it, there's a risk that your building will become a low B or C building. But if you want to avoid that trap, it's important to consider one essential question:

Who's crafting the strategy that's driving these decisions? Is anybody on your team looking at how to future-proof your building(s), or are you just hoping the old ways don't fail you?

What You Do Now Decides the Long-Term Success of Your Building

Failing to implement flexible office space comes with some opportunity costs.

Without it, you may not continue to get the rates or the quality of tenants that you're used to. And once your building(s) get there, it's a long way back.

Many landlords believe that having a B building with 10 tenants where only three are renewing in the next three years means they're future-proofed.

But this is a short-sighted strategy.

So the next question you need to ask yourself is this:

"Do I take this moment where there's no urgency and use it to start thinking about what happens after those three years are up? Or, do I continue to avoid looking further into the future?"

If you start thinking about it now, you can avoid finding yourself in a tough spot in 36 months.

Who's Making Your Important Strategic Decisions?

Every building is in its own unique position. And as such, not every building should follow the same exact playbook.

But the universal questions you need to be asking are:

- Do you have a portfolio-wide view of how you're going to handle the return to work?
- What's your North Star?
- Who's driving strategy discussions in real estate your company? Do you have someone managing this?

- Who's at the table for these long-term discussions and decisions?
- Where are you getting news, insights, and influence to influence your decisions?
- Should we plan for the return to work at all or just hope for the best?

Some building owners have people overseeing strategy. But many don't. And the problem is that the ones who need it most are often the ones neglecting it.

There are lots of very sophisticated, forward-thinking companies that own buildings, especially at the institutional level. And they're already thinking ten steps ahead.

And the rest should follow suit.

How to Start Future-Proofing Your Buildings Today

It's important to assess how you're getting the information that's guiding your future strategy decisions:

- Is it an inside team?
- Are you hiring a broker?
- Are you reading periodicals and white papers?
- Are you going to events and getting info?

Or is it speculative? Speculation is a challenging way to make the right decisions.

What You Can Do If You Have Large Vacancies in Your Building

As the commercial real estate business is changing, large-scale tenants are re-evaluating their options, and sizable spaces are starting to go vacant, it begs one very important question: how can you, as a landlord, reduce the negative impact of these vacant spaces on your bottom lines?

Finding the best possible approach comes down to asking the right questions and deciding on the right solution for your situation.

3 Questions You Need to Ask When Deciding How to Handle Vacancies

When contemplating the best avenue to pursue with your building, you need to ask yourself three big questions.

What Rate Can You Charge Right Now?

For example, imagine you have 10,000 square feet to fill in your building and you're trying to decide what to do with it. The first thing you need to examine is the rates you can command per square foot.

.In many cases, landlords are hesitant to do 10-year deals on large-scale spaces because, in many locations, asking rates have fallen between 10% and 20% from pre-pandemic levels.

So, the question becomes what rate you can start this deal.

What Do You Have to Give Away to Get a Deal Done?

Next, you need to consider what you'll have to give away in order to secure your new tenant.

This may include:

- Hundreds of thousands of dollars in TI (tenant improvement allowance)
- 1 month of free rent for every year of the deal (all upfront)
- Broker commissions on a 10-year lease deal

Concession packages (the cost of the items listed above) are sky-high in 2023, and a large number of vacancies have created a buyer's (tenant) market. When you add the logistics issues for everything to get done, you have huge concession packages to contend with.

How Long Will It Take You To Get My Money Back?

The last question is simple: how long will it take to get your money back on this deal?

Notice that the question has nothing to do with the return on the deal. This is a subtle nuance. Many people are doing deals right now that only return their original capital investment.

Broadly speaking, most commercial office deals return the owner's capital in five to seven years. This is acceptable on a 10-year deal—the last three to five years are where you really get your return.

But today, there is no guarantee of any return whatsoever.

Can you afford to do deals like this?

3 Options to Consider When Evaluating Your Best Course of Action

Now that you've looked objectively at the tough questions, the only thing that remains is deciding between three primary options.

1. Do the Deal

If you need the occupancy, you can simply do the deal, understanding the challenges and issues it poses and being willing to deal with them regardless.

2. Leave It Dark and Close the Doors

You can decide that it's just not worth it: rates are down, concession packages are up, and you don't want to do long-term deals. So, you just leave it dark and close the door.

3.Get Creative and Go Flexible

Instead of trying to lease 10,000 square feet, you can break that space up into smaller suites, put in WiFi, furnish them, and opt for flexibility for the next few years. Flexibility will also offer faster returns than a traditional lease.

On top of that, the build-out for these does not have to be "market TI." If you have existing space, you can work with that and modify the space.

And most flexible deals with short-term leases don't require concessions. If someone wants space for 15 months, they aren't expecting much—if any—free rent period. Most of these deals do not involve brokers, so there is no commission. And saving between three and six percent on a 10,000-square-foot lease on a 10-year deal is not insignificant.

Eventually, vacancies will start to decline, things will bounce back, rates will increase, and you'll be able to reevaluate your options then. You may even fall in love with the flexible option.

In the meantime, considering flexible space provides you the most leeway to continue generating revenue from your space while shelling out as little as possible and freeing yourself from the confines of an ugly ten-year deal.

The Big Factor That Will Create Success with Flexibility

If you opt to go with flexible space, there's one big factor you need to be cognizant of flexible office spaces rely heavily on strong, proactive relationships with your members. The human element is one of the biggest selling points for your space.

That is to say, you can't just leave your tenants alone until the rent's due. You can't simply say, "Here's your space, furniture, and internet, see you next year."

And that's where a coworking operator comes into play. They act as your dedicated partner, helping to activate your building and create strong, meaningful bonds with tenants.

When you find yourself with large amounts of vacant space in your building, the most important thing is to ask yourself meaningful questions and then decide on the right course of action.

Comparing the Profitability of Traditional vs. Flexible Office Space

We've discussed the opportunity costs associated with not adding flexible office space into your portfolio.

But what about the quantifiable profit differences between flexible office space and traditional leases?

Which model is going to bring you more money?

Here's why.

The Timelines for Turning a Profit with Flexible Office Space

Concession packages (the cost of the items listed above) are sky-high in 2023, and a large number of vacancies have created a buyer's (tenant) market. When you add the logistics issues for everything to get done, you have huge concession packages to contend with.

One of the most important considerations for landlords is when they'll begin to see profit from a flexible office space model.

And the truth is that it depends. There is a multitude of variables that go into that equation—everything from month-by-month revenue to expenses and office absorption.

That makes it hard to quantify without knowing your exact scenario.

Instead, it's more realistic to look at how and why you'll make more money with flexible office space than traditional office spaces rather than how long it'll take to see a profit.

Understanding Flexible vs. Traditional Office Lease Profit Models

First, you need to understand the differences between the profit models for both flexible office and traditional office leases.

Traditional Office Leases

A traditional office lease will typically get you the market rate with escalators. And as a generality, you'll probably be giving a 12-month concession right off the bat (give or take, depending on the duration of the lease).

To illustrate the point, we can crunch numbers based on a theoretical $20 per square foot market rate:

For the first 12 months, your space is leased for $20 per square foot, but you don't get paid anything yet

In month 13, you'll put a 2% escalator on that ($20 x 1.02), which brings you to $20.40 per square foot

In month 25, you'll add another 2% escalator ($20.40 x 1.02), bringing you to $20.80 per square foot

In month 37, you'll tack on another 2% escalator ($20.80 x 1.02) which will work out to $21.22 per square foot

This pattern repeats itself for the duration of your lease.

Flexible Office Leases

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Factoring In Tenant Improvement Dollars

The next thing you need to consider when comparing flexible versus traditional office space scenarios is how much money you're going to spend in TID (tenant improvement dollars).

For example, on a 10-year lease for 5,000 square feet, you may be expected to spend fifty dollars per square foot building out the space for your tenant.

And this is reasonable, considering you're locking them for the longer term. But it's also costing you a quarter of a million dollars.

With a flexible office space model, you're going to save a fortune on this front.

Flexible office space operators don't base TIDs on the market-dictated value.

Instead, they'll examine the space and seek ways to make use of what you've already got in the space. At Launch, our preference is always to do as little demolition and rebuilding as possible.

So, rather than spending $50 per square foot to build out the space, you may only spend $40 per square foot —in turn saving you $50,000 right off the bat.

Looking at the Long-Term Profit Forecast for Flexible vs. Traditional Office Space

When you're working within a managed flexible office space model, the reality is that you might not see a premium in your pocket for two years or longer. That's the nature of bringing in multiple tenants at a higher price point rather than only having to work with one large-scale tenant.

But when you factor in all the up-front costs and returns on both deals, the overwhelming majority of the time you'll find yourself back in the black on your investment at least one year sooner with a flexible office model than you would with a traditional lease.

Consider Your Worst-Case Scenario

While it's an absolute rarity that this occurs, it is worth mentioning that, if your flexible office space doesn't work out, you're still in an incredibly strong position.

While it’s an absolute rarity that this occurs, it is worth mentioning that, if your flexible office space doesn’t work out, you’re still in an incredibly strong position.

At the absolute worst, you’ll have built an incredible spec space. You won’t have to undo everything you just did. You won’t have to scrap it and spend another million dollars. You can just repurpose the majority of it, spend 10% of your initial investment to break it up into other spaces, and you’ll have a beautiful space ready to be leased right away.

Everyone knows there are no guarantees in commercial real estate. But when you look at the facts, it’s a very safe bet that a flexible office space model will outperform traditional lease agreements by enough of a margin to be well worth considering.

Inflation and Recession: What Economic Cycles Might Mean for the Flex Office Industry

Before the pandemic, the big worry for the coworking industry was that it hadn’t been through all the economic cycles.

Then COVID-19 occurred.

Suddenly, the focus shifted to what needed to be done to handle this unprecedented global challenge.

Now, as the pandemic subsides, we’ve reverted to the question of whether or not flexible office space is a good thing during an inflationary and recessionary period.

When Is Flexibility Ever Bad for Business Owners

Fundamentally, when you’re debating the viability of the coworking industry during any given economic cycle, the biggest question is this:

How is flexibility ever a bad thing?

Imagine that you’re a business owner, the economy is entering a recession, and your office lease is almost up.

When you remove the pandemic from the equation, is your business recession-proof? Does it thrive in a recession? Or is it recession-neural?

And, on the other hand, how long of a recession are we facing? How deep will it be? How far-reaching will it go?

Your specific situation, in conjunction with the current circumstances, will dictate whether you want to sign a long-term lease.

But here’s the key consideration: as an employer, your number one liability is rent—even more so than payroll.

So, if you have any uncertainty whatsoever, you’ll need to determine your comfort zone in dealing with it when deciding on your leasing options.

And, for most business owners, when faced with uncertainty, flexibility is going to be substantially more appealing than inflexibility.

Landlords Need to Play the Number Game

As a landlord, you need to consider the numbers. It’s the only logical way to approach your decision about whether flexible office space is right for you.

Imagine you have 100,000 square feet of space and 80,000 of them are occupied by a single credit-worthy tenant.

Is that too risky in the face of a looming recession? The answer is most likely yes.

Because if that single tenant doesn’t renew their lease—or, worse yet, defaults on it—you’ll be stuck asking yourself some difficult questions.

What do you do now that they're gone?

How long is your space going dark?

How long does it take to lease your space again?

How much is it going to cost to get the space ready to put back on the market?

What kind of concessions are you going to have to give to get a deal done?

And can you handle all of that?

The adage, "too much of anything is a bad thing," also applies to office real estate: too much of a single tenant is no good at all.

Because nothing lasts forever—especially in the face of uncertainty.

The Few Times Where Flexibility Isn't the Answer

There are some scenarios where flexible office space isn't the right answer.

For example, if you're into a short-term hold where you plan to acquire an asset, come in as a value-add, make a few improvements, and flip the building, flexibility may not be for you.

In that case, flexibility makes the transfer of ownership more complex because it involves a degree of educating the new owner and selling them on the concept.

But that's a different approach to real estate than most landlords follow.

How Flexibility Makes Your Building Recession-Safe

Flexibility gives you options.

If your tenant hits hard times and has to lay off the majority of their staff, a lack of flexibility may mean you lose them entirely.

But, on the other hand, if you have flexible space you can offer to them to accommodate their reduced team, you can theoretically keep them in the building until their business levels out, and they can grow into a larger space again.

Your building doesn't need to be overwhelmingly flexible. In fact, it shouldn't be. But how much safer would you feel if you had options to offer your tenants during uncertain and challenging times?

People will need flexibility eventually. And when they do, they'll find it.

The question becomes this: will you be able to give it to them or will you risk losing them to a building that offers flexible workspace?

There are a ton of ways flexibility helps a company in a recession and offering it means you can support them as they weather that storm.

That kind of relationship between a landlord and tenant is what people remember—and it's what keeps them with you for the long run.

How to Assess if Flexible Office Space is Right for Your Building

When you're looking to get into flexible office space, the first step is to get familiar with the industry as a whole and with the competitors and operators in your own market.

Tap Your Network

At Launch Workplaces, we transitioned into monetizing our flexible office space model by solving our own challenges and tapping into our network. We originally implemented it in our own properties as a means of increasing tenancy. It was only when we started getting noticed by our counterparts in the industry that we made the step to formalize our process and sell it as a service.

We had a ton of other building owners and property managers asking us about our new-found business model and, as a result, we realized an opportunity. This showed us the strength of our network and demonstrated how willing people are to talk to one another.

So, if you're looking to get into the coworking business, start by talking to your friends or peers in the industry — the ones who may already have a coworking presence in their building or portfolio.

Begin by simply asking them a lot of questions:

- Whom did they partner with?
- Why?
- What was the model they selected and how did it work out?
- What was their expectation going into this undertaking and how did the result live up to it?

You can learn a lot from these people and it's a safe bet you can expect honesty from them.

Go Out and Get a Lay of the Land

You should also consider getting out and exploring the coworking spaces near you. They won't be hard to find. Most of these coworking operators will be willing to speak with you. So, when going out to see coworking spaces first-hand, just be honest.

Make an appointment. Tell the person who's giving you the tour that you're a building owner and that you're thinking about putting flexible office space into your building and that you want to see the competition and how they run their businesses.

Do this rather than act like a secret shopper. You'll get a lot further this way.

Take a Look Online

If you don't feel comfortable doing in-person tours, which will likely apply more widely during the pandemic, you can also take some time to look around online at the different coworking operators in your area. There are also organizations you can join that can help you get plugged into what's going on in the coworking business, such as the Global Workspace Association.

Once you've done your research, the next step is to get a grasp on whether your building has what it takes to accommodate flexible office space.

How to Know if Your Building Will Succeed as a Flexible Office Space

One of the most common questions we hear from commercial property owners when they're considering flexible office space for their portfolio is this:

"Does my building have what it takes to be successful?"

While there are no guarantees in this business, the following five factors generally dictate the success of a building.

1. The Quality of Your Building

When you're thinking about whether your building would be a good fit for a flexible office business, you can boil that down to simply asking yourself if your building would be a good fit for any tenant

Think about the critical factors that determine how well any commercial real estate property will perform, including:

- Parking: Do you have parking on-site? If not, how close is it to your building? Do you offer free parking, or is it paid? If it's paid, is this the same for every building in the area? Or are you the only one?
- Location: Where's your building situated? What are its surroundings? Is it a safe and well-lit environment? Or is it at the end of a dead-end street with no lights and you're the only building on the block?
- Amenities: One of the most critical things in the success of any commercial property - especially flexible office space - is the presence of things that enhance the quality of life for your tenants. This would include things like gyms, cafes, and restaurants. Whether it's an A building or a B building, the goal should be that, once your members come to work, they don't need to get back in their cars to access the things they need.
- Historical Performance: Look back at how your property has performed historically. If you've been 40% empty for 16 months, your building simply might not be a fit.

Ultimately, any building that's good for tenants will be good for flexible office space.

2. Demographics in Your Area

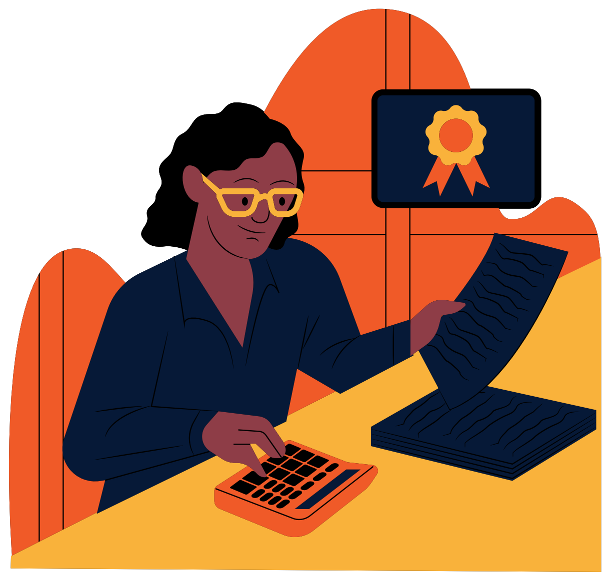
Before you get into the flexible office business, conduct in-depth market research into the demographics of your area. Who's around? Are there people around that have the propensity to join one of these locations? You need to know where your members would be coming from before getting into this process.

3. How Much of Your Building To Dedicate To Flex

The next thing to think about is how much of your building you need to dedicate to coworking. There's been a ton of discussion around this in the last two years and the COVID-19 pandemic will doubtlessly change things.

As a generality, we would advise you not to dedicate more than 30% of your building to coworking because buildings with less than 30% flexible office space typically trade for more than buildings with a higher ratio of flexible office space.

With the way the world is evolving right now, flexibility is going to be at the forefront of what people offer, but only time will tell what that number ends up being.



4. Your Mindset as a Landlord

Your mindset is critical when it comes to getting into flexible office space. It's important that you consider why you want to get into this business. Is it because you're in that situation where your building has been 40% empty for 16 months and you don't know what else to do? Or, do you feel like you need flexibility as part of your portfolio going forward?

The difference will be the expectation of that space. And in our experience, landlords who are convinced they need flexibility in their portfolio are the most likely to succeed.

5. Your Level of Comfort With Adapting and Being Flexible

As an extension of your mindset, you also need to consider whether you're comfortable with being adaptable and flexible. Like every business, flexible office space ebbs and flows. But if you're not in the right mindset, every hiccup feels like the end of the world. You need to be able to wrap your mind around the fact that it's a dynamic business.

For instance, at Launch Workplaces, we run pro formas month by month for 48 months. And while you can try to evaluate what could happen in that time, none of our pro formas could have predicted a pandemic.

So, for commercial landlords who feel like flexible office space is the future of work, a 90-day shutdown for the pandemic feels easier to handle than it does for a landlord who's getting into flexible office space as a last-ditch effort to fill your space.

If you've done your research and determined that your building would be viable for success in the flexible office space, the next thing you need to understand is how flexible office management agreements work.

For Multi-Location Landlords, It's Wise to Put Flex Office Space in Several Buildings

If you're a privately-held, multi-property owner, you can benefit from incorporating flexible office space into multiple locations.

As long as your portfolio checks the right boxes, this can be a hugely beneficial endeavor.

Here are a few considerations to make when trying to decide if it's the right move for you.

Complementary Locations

If your portfolio is diverse in terms of the locations of your buildings, then adding flexible office space to more than one of them is a good idea.

For instance, if your offices are between five and 25 miles apart and are in completely different markets, they can actually complement one another rather than compete with each other. For example, Launch has two buildings about five miles apart but, because they're in different markets, we're able to offer varying price points to appeal to different members.

And when we partner with landlords, we offer that same benefit: we can go into multiple buildings in several locations and tailor them to each market so that they're complimentary, not competitive.

Prospective Member Retention

Having multiple flexible office spaces in different markets can also help you retain members that you otherwise might have lost.

Being able to offer different price ranges at each location can help you capture multiple demographics. On the other hand, if you only had one location, you might end up sending away potential members because you didn't align with their budget. Having multiple buildings lets you keep both.

On top of that, you can benefit from retaining member spillover: if one of your flexible office spaces is completely full, you can let prospective members know that you'll set them up in another location until the one they want becomes available.

Added Convenience for Members

The member experience is one of the biggest difference-makers for people choosing which flexible workspace to join. So, the more convenience you can offer them, the better.

Here's an example: if you're a Launch member in one building, then you're a member of all of them. This means that Launch members can book a meeting space in a different market if they need to, or they can stop in and work at a different space if they find themselves across town.

Having multiple locations means being able to offer more convenience and flexibility than you would if you only had one.

Where Does Flexible Office Space Not Work?

There are some places where flexible office space just doesn't work. The absolute hardest place is rural America—there's simply no density to pull from. Urban markets are also a little tough right now because of the pandemic.

On the other hand, there isn't a single suburb in the United States where coworking isn't a great idea. So, if you have offices in multiple suburban areas, there's a good chance you've got a shot at success.

At Launch, we've worked with a number of commercial landlords to open multiple locations at once. And, in our experience, privately-held multi-property owners can benefit from an incredible opportunity to have flexible office space in multiple buildings.

The Timelines for Opening a Flexible Office Space

If you're thinking about opening a flexible office space, one of your biggest priorities is understanding how quickly you can open your doors and start turning a profit.

From doing your research to having a preliminary conversation to finally opening up shop and what you can expect along the way, here are the timelines we abide by at Launch.

The 6 Phases of Opening a Flexible Office Space

To get an accurate idea of how long it'll take you to open a flexible office space, the first thing you need to do is get familiar with the process.

Here's how it happens when you work with Launch.

Phase 1: Exploration

The process of opening a flexible office space starts with exploration.

This is the stage where you do your research, asking questions like:

- Do you want to add flexibility to your portfolio? Is it worthwhile?
- What do you know about it already? What do you need to learn?
- Is flexible office space a good fit for your portfolio?
- Should you find a partner? And if so, who do you want to partner with?

How long this phase takes varies with each owner but it generally requires a minimum of two months of exploration, including research and site visits.

Phase 2: Macro Evaluation

The next phase of the process begins once you've got in touch with a flexible office space operator, and it involves an evaluation of your building and your situation on a macro level.

At Launch, we start by looking at a few things, such as:

- What is the asset?
- Where is it located?
- What amenities and selling points does it have?
- What's the mindset of the owner? Do they feel flexible office space is an essential addition to their portfolio or is it that they desperately want to fill a space that's been vacant?

Then, we do an in-depth evaluation using our proprietary Valu Nav software and measure your asset against a weighted 12-point scale to determine the viability of incorporating flexible office space into the build as well as gauge the potential for success.

Stage 3: Micro Evaluation

Once we've conducted our macro-level evaluation, we start looking at things from a more granular perspective.

We look at factors like:

- Who are the competitors in the market?
- Is the space currently empty? If so, why?
- What's the current state of the space? Did someone move out a year ago and you demoed the space? Or are existing office spaces and conference rooms?

From here, we do the following:

- Receive a CAD file of the space
- Develop a rough 4-year pro forma
- Use our proprietary algorithms to evaluate things like the optimal office-to-coworking ratio
- put our spin on the space and provide a recommendation on how to lay it out

The full evaluation process can take as little as a week or as long as a month, depending on how quickly you can provide us with the assets we need.

Phase 4: Architectural Renderings and Permitting

INext, we provide you with a formal architectural rendering called a test fit which shows you how we envision the space looking once it's complete.

Since we're a real estate company, we recommend working with what you've got rather than doing demolition, whenever possible.

During the test fit, the architect will reconfirm all the numbers and measurements of the space with you. Then they'll get into the specifics of infrastructure, HVAC, fire safety, accessibility, and other key details before submitting their renderings for formal approval.

The process of getting a set of drawings approved and formalized can easily take four weeks.

The next step is securing permitting which, depending on what county you're in, can take between one and two months, or sometimes even longer. This includes internal review by the permitting department and back-and-forth with the architect.

While a tight plan can get through in as little as a month, delays are often unavoidable.

Phase 5: Securing Contractor Bids

With finalized plans in hand, you'll need to send the job out for soft bids from contractors. It's always wise to get at least two bids and you can expect this to take two to four weeks.

Phase 6: Building Out the Space

Finally, you'll need to build out the space which takes a minimum of two months to complete.

Our experts at Launch will also be working away in the background with six months of pre-opening marketing to make sure there's a demand for your space when

the doors open.

All in, the timeline for opening a flexible office space can be seven to eight months. So, if you're considering adding flexible office space to your portfolio, look at your desired opening date and work backward from there.

Everything Commercial Landlords Need to Know About Flexible Office Management Agreements

Gone are the days of management agreements built on the core philosophy that "a lease is just a lease." Today, flexible office management agreements are intended to support and protect commercial landlords so that they can successfully launch a profitable coworking business in their building.

What Are Flexible Office Management Agreements

The best way to explain it is to say that today's flexible management agreements are basically like boilerplates.

These agreements are meant to be flexible enough so that, as the building operator and the coworking operator discuss expectations, hopes, and longer-term plans for the building, they can all be incorporated into the final result.

Flexible Management Agreements are Meant to Be Dynamic

The key thing to consider when building a flexible office management agreement is what you, as the building owner, are trying to accomplish.

This includes things like whether you're a buy-and-hold owner, or if your goal is to buy low, add value, get the rent rolled in, and flip it.

From there, the flexible office management agreement becomes a sliding scale of give-and-take that includes things like:

- Furniture
- Build-out
- Management Fees
- Terms of a lease run through a management office

In our Launch Workplaces flexible office management agreement, this is the foundation we begin with. And then it's a matter of tailoring it to the exact needs of the building owner.

It's critical to lay out all key terms at the beginning of the discussion, establish them as items you'll need to consider as you work through the agreement, and then hash them out through continued dialogue.

Flexible Office Management Agreements Keep Owners and Operators Aligned

Flexible office management agreements aren't just important because they outline key details. They also keep everyone working together for a common goal.

Office management agreements are important for you as a landlord because it's ultimately your smartest play to get an operator in your building that can enhance the entire building.

For example, you might have a 10-story building and decide to hire somebody to manage the fourth floor. If their goal as an operator was simply to fill the space, they would simply owe you $30 per square foot and that would be the extent of your relationship.

But the problem with that?

You'd be trying to fill your other nine floors while that one operator was trying to fill your fourth floor. And this means that they would be inherently competing with you to get members. In that case, that operator is going to be trying to market their space in your building and you're going to be trying to market yours as well. So, ultimately, you wouldn't be working together. You'd be working against each other. At the end of the day, that doesn't add value to your business.

On the other hand, if you agree to work together, the outcome will be better for everyone. For instance, if Launch Workplaces takes the fourth floor and we make aspects of it available to other people in the building — for instance, by offering free conference rooms to them — then suddenly that fourth floor is an asset you can use to market the rest of your building.

So, with flexible office management agreements, the amenities that we would build into your flexible office space suddenly become amenities for the rest of your building, too.

With these agreements, we're ultimately working together to make your building better rather than competing to fill space.

Your Flexible Office Management Agreement Gets You a Face for Your Building

Another thing to consider is that, when you sign a flexible office management agreement, you're not just getting somebody to build out your space and bring in members.

You're getting an experienced ambassador that will represent you all throughout the building — which is a huge asset.

Think about it this way: every building has an engineer who looks after upkeep and repairs. And while they may be friendly, their primary job is to fix things, not to be a goodwill ambassador or enhance your members' experience in the building.

When you sign a flexible office management agreement, you get community managers whose sole job is to make the experience better for everyone in that building.

One Vital Detail That You Absolutely Have to Account For

When you're getting into a flexible office management agreement, it's critical that you, as an owner, pay attention to termination clauses. Make sure you understand how you can terminate your coworking operator and how they can terminate you.

Make sure there's clarity on that by including defined termination clauses for each party and that you're comfortable with that before the relationship begins. At the end of the day, the truest value in flexible office management agreements is that they let you move your real estate out of the world of commodity and into the world of value.

The 7 Steps to a Successful Flexible Office Management Agreement

Flexible office management agreements are dynamic in nature. They should be tailored to fit the exact specifications of each situation. That's why none of ours are identical. But while each one is different, there are a few key consistent factors you want to make you see every time.

We include these seven things in every Launch Workplaces flexible management agreement.

1. Our Homework on Your Building

The first thing we do when we begin a dialogue with a commercial landlord is do some detailed homework on your building.

We do this using our patented 12-point evaluation system which gives each building a score between zero and 100.

This evaluation considers key factors that give us details on how we think your building will perform.

2. Rough Sketches of the Space Plan

Next, we develop a very rough sketch of your space that will map out how we think the office layout should look and flow.

3. High-Level Cost of the Build-Out

Inevitably, the next question we get is about the price of the build-out.

As a commercial real estate company, we have deep experience and understanding of effective building management.

And to keep costs as minimal as possible, we always try to incorporate existing walls and spaces into your build-out plan rather than telling you that you need to spend $125 per square foot to do extensive demolition and buy everything brand new.

In most cases, there's no sense in tearing down walls and rebuilding new ones. Like all great coworking operators, we won't frivolously spend your money on build-outs that we don't think are useful.

4. High-Level Cost of Furniture

Once we've established the high-level cost of the build-out, we start looking at furnishing options.

We do this by presenting you with varying levels of furnishing options for different budgets. Then we build out a pro forma around that plan with an absorption schedule and an overview of how much of your existing furniture we think we can incorporate into your new space.

5. Overview of Management Fees

Next, we discuss our minimum management fees and which premium we can offer to you.

6. Test Fit

At the end of our meeting, we establish whether there is potential in your building. If so, we'll begin a test fit. This generally costs between 12 and 15 cents per

square foot and it allows us to take our initial sketch and begin confirming that the test fit works. From there, we can start getting concrete pricing for what it would cost to build and furnish your new space, including the size of amenities and conference and meeting rooms.

7. Finishing Schedules

Finally, we start diving into finishing schedules. During this part of the process, we bring in a construction company that can help talk you through the exact specifications and costs of each aspect of the project. This is extremely important because it gives us an opportunity to explore your level of comfort with the costs. If you need to get a cost down, we can work on figuring that out, too.

And last but certainly not least, it's critical that you find a like-minded partner to help you manage your flexible office space.

How to Capture Demand for Your Flexible Office Space

Most commercial real estate professionals miss out on the existing demand for flexible office space because they don't take the necessary steps to go out and capture it.

Their strategy is to sit back and wait for members to sign up. And as a result, spaces just sit empty.

It's important for you to know that a little legwork can go a long way in seizing profitable opportunities.

Demand for flexible office space does exist and you can capture it. At Launch, we do it every day.

Here's how.
The Unfortunate Reality for Most Commercial Properties
The secret to harnessing the demand for flexible office space and turning it into profit comes down to being proactive.

But this isn't always common.

For most commercial real estate companies, the traditional process of trying to fill a space entails two steps:

Step 1: List the space on CoStar
Step 2: Wait for somebody to see it

Then, they wait.

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How Launch Proactively Harnesses Demand for Flexible Office Space

This traditional approach has been effective enough to keep the commercial real estate industry afloat for a long time.

But at Launch, our preference is to make the timelines for filling commercial properties a little bit more aggressive.

For example, we have a building we call Lakefront. It's a five-story asset and the second floor is currently a Launch Workplace.

We had some tenants departing from the rest of the building. So, we took some of that space and prepared it to be leased as a flexible office space—we painted it, furnished it, added in wifi, and made it tenant-ready.

From there, what we could've done was to list it in CoStar and wait for interested tenants.

Instead, we:

- Conducted a survey in CoStar for anybody who had 8,000 square feet of space or less within 7 miles of us and whose leases were expiring in 2021
- Reached out to them directly and let them know we had everything they needed, from flexible terms to a location on the lake, parking on-site, an app for managing their space and making their lives easier, and more
- Personally invited them in to check out the space

That's a totally different approach than posting a flier on a website so that a broker who might be representing a tenant who might be moving might come to take a look at it.

The demand is out there for flexible office space. But in order to harness it and turn it into profit, you need to go find it, capture it, and turn it into profit.

3 Common Pitfalls of Managing Your Own Coworking Space

As much as the flexible office industry can be extremely profitable, many commercial landlords try and fail at it.

It's not that you can't launch a coworking space on your property. But it is cumbersome and time-consuming, with a ton of details to deal with each day.

There are three common pitfalls that commercial landlords experience when trying to launch and manage their own flexible office space.

1. Making Costly Mistakes

Building and running a flexible office space comes with a steep learning curve. And that can be expensive.

Think about the FF&E (furniture, fixtures, and equipment) aspect of the business. There's a lot more to it than just buying furniture and putting it into your space.

The same goes for the types of technology you'll need to run your space. It's not just the administrative back-end items you need to run the business, but the other technology that you can use to enhance the lives of your members, like tech that lets them access the building and their suite, pay their bills, and manage their bookings.

We built Launch Workplaces on the foundation of a 128-year-old real estate company as a way to fill our own buildings, not as a way to monetize a coworking business model.

And we made—and learned from—these costly mistakes in the early days.

We even realized we'd missed the mark on our first round of FF&E and it was a big, unnecessary cost.

If you own 50 buildings, it might be worth investing a million dollars to get the formula right. But if you're only rolling out flexible office space in a few buildings, the math doesn't work out. The ROI isn't there. You're better off just finding a partner who can help you.

2. Lacking a Hospitality Mindset

All of the items in the previous section can be learned.

But there's one thing that can't be taught so easily, and it also happens to be one of the most critical factors in the success of any flexible office space: a hospitality mindset.

Great flexible office space is more than just a room full of furniture and hardware. It's a place that makes life better for the people who work there, and that starts with your staff.

At Launch Workplaces, we're really a hospitality company. We focus massive amounts of time and energy on the human element of our spaces.

We do personality testing when hiring our Community Directors. We actively seek people who have things that can't be taught: warmth, empathy, and kindness, all fused with the ability to run a business.

This is the most intricate and difficult element in being a successful flexible office space: finding people you can allow to be themselves and run the space on your behalf knowing that they understand the culture of your company and can be trusted to display it at all times.

3. Missing the Critical Community Element

As an extension of the previous point, your flexible office space needs to have a strong professional community element to it.

And that's done by design.

The people who run your space need to take an active vested interest in enhancing the lives and the businesses of your members at every opportunity.

This can mean fitness and wellness initiatives, finding ways to make sure they're not working 24 hours a day, and providing them with every resource they need to succeed.

It can also mean finding ways to make your flexible office space a community hub for the rest of your building by offering amenities and services that benefit everyone.

And looking forward, that's what we see as the future of commercial real estate — something we've dubbed Real Estate 2.0.

When it comes to implementing and running a flexible office space in your building, it's all about having the right foundation for success. And it's tricky.

Why It's Better to Partner with Someone to Manage Your Flexible Office Space

If you're interested in incorporating flexible office space into your commercial property, you've done your research, and you've considered the five key factors that support success, it's important to make one more consideration: find a like-minded partner to help manage your flexible office business.

While this is something you could do yourself, working with a partner who's got the process down to art could mean the difference between success and failure.

Why?

1. They Can Offer In-Depth Expertise

A reliable partner will help you ensure you've covered every possible detail. For instance, at Launch Workplaces, we conduct our thorough 12-point evaluation of every building before we activate it for a landlord.

Buildings with a score of 80 to 100 have the propensity to succeed. Buildings with scores between 60 and 80 may have some red flags and absorption may not happen as fast, meaning they may not follow the normal path to success.

A reliable partner will also let you know if your building isn't a good fit.

Since Launch Workplaces started out in this business, we've evaluated well over 100 buildings and created a patented system that allows us to give landlords credible insights and advice.

2. They See Eye-to-Eye With You

At the end of the day, the building owner and operator need to be aligned. Because even if you're a hands-off owner, your members will still interact frequently with the people who represent you. This means that you're still part of the ecosystem of that building and you're involved in it.

And the reality is that you can have the best building in the best location with the best prices but if you're not aligned with your operator, you won't succeed.

3. They Will Do It for the Right Reasons

A great coworking partner will be driven to make your building better rather than just making it full.

When you get into flexible office space, it's critical that you activate the building and transform it into something better. Your success will be hindered if you partner up with a person or company that's financially motivated and are solely chasing an arbitrage situation. Rather than just coming in, taking a floor, and trying to lease it out, you'll benefit massively from a partner who cares about enhancing the quality of life for your tenants. That's how you create longevity and success in this industry.

Contributed Capital: Why You Shouldn't Be Fooled by Big Numbers and Bold Promises

A lot of commercial landlords look at the big players in the flex office space—and their contribution of capital—and automatically assume it's the best option for them.

But it isn't.

Many landlords have assembled a flex workspace team

with the mission of figuring out what exactly this flex thing is and how they could do it.

They understand that there's more to the flexible office market than simply leasing out space. They've done their homework and talked to a few operators, and are motivated and educated.

But oftentimes, landlords want to partner with flexible office space operators who contribute capital.

Checking the Math on Contributed Capital

It's important to consider the price per square foot that the large, capital-contributing operators will offer for your build-out.

This could be around $180 per square foot.

One of the reasons why the large operator's cost per square foot might be so high is that they might be pitching the perfect space (according to their model) which would require a complete gut and rebuild, including:

- 100% demolition of existing space
- New construction of offices, conference rooms, lounges, phone booths, reception, and kitchen
- Lots and lots of glass

But it doesn't always have to be the perfect space. It just needs to be what the market demands. There's a huge difference.

At Launch, our process is this...

Launch shops all of the competitors in your market. We present the results that your market tells us, not what we think is right. And what we've found is that, in almost every case, we're able to work with a majority of the existing conditions, greatly reducing the capital required to build space that the market is saying works.

We can often present a pro forma at a much lower price that includes:

- Construction
- Furniture
- Technology
- Pre-opening marketing budget
- Training for a community director

We include everything you'd need to successfully fill your space.

On the other hand, capital-contributing operators might pitch a pro forma at three times the build-out cost but neglect to realize one important thing: just because you spend three times as much to build the space, it doesn't mean you can charge three times as much for the space.

The market can dictate what you can charge, not your internal sales team.

The massive capital required by the bigger operator (even though they contribute some) is going to make the recovery of that capital take a whole lot longer than it would if you did a deal at a lower build-out price—one where the space isn't necessarily perfect, but it's good enough to meet the demands of the market.

Ultimately, just because the group that kicks in the capital is a big-name brand doesn't mean they're better. They aren't. They're just bigger.

Understanding the Market is Crucial

The market doesn't lie to you. But the problem with these large-scale operators is that they're contributing capital, making all these promises about filling your space in twelve months and giving you a four-times return on your investment, then being wrong later, leaving you to decide what to do with your underperforming operator.

How Launch Helps Monetize Vacant Spaces for our Commercial Landlord Partners

The right flexible office partner can help you fill new vacancies elsewhere in your building, letting you get new tenants quicker and begin generating revenue from that space faster.

Here's a real-world example to show you how it works.

Addressing Vacancies and Downsizing in Urban Markets

When it comes to traditional office space, we're seeing a lot more vacancies in urban markets, the return to work is happening slower there, and there are a lot of tenants looking to downsize.

So, in one of our urban locations, the building owner found themselves with 30,000 square feet of vacant space.

And we decided to reach out and see if we could find a solution.

Adapting Space to Meet the Market

We're seeing a trend taking shape in the office space market: commercial tenants who once had between 10,000 and 15,000 square feet of space now only want or need 3,000 or 4,000 square feet.

Understanding that, we proposed to the building owner that they let us take their 30,000 square feet and break it down into smaller spaces to meet the demands of the market.

Turning Vacant Space Into Profitable Flex Space

Essentially, we told the landlord we would help them do a few things, including:

- Light their suite up with WiFi
- Freshen it up with new paint, furniture, hardware, and a few upgrades
- Break the suite up into smaller spaces
- Allocate some marketing dollars that we use for Launch to promote our new, smaller spaces
- Take prospective members on tours of the space

The end result was the creation of several smaller plug-and-play suites that tenants could pick up on flexible terms with a six-page license agreement from Launch rather than a 40-page commercial lease from the building owner.

And that's exactly what happened: we were able to start generating revenue from that space rather than leaving it to sit empty.

The Benefit of a Real Flex Office Partnership

We talk a lot about how flexible office space operators should be your true partners, and this is exactly why.

At Launch, we're not just looking for new commercial spaces to fill. We're also maintaining ongoing relationships with our partners, proactively watching what's going on in the market, monitoring how things are going in the building, and seeking new opportunities for our existing partners.

We work with owners to fill open spaces in their buildings.

If you're a building owner and you're not working with a partner that takes this approach, you're missing an opportunity.

By maintaining ongoing and open relationships with our partners, we're able to proactively find ways to help them generate more revenue.

5 Reasons to Partner with Launch for Your Flexible Office Space

Since the onset of the COVID-19 pandemic, the future of commercial real estate is headed in a new direction. The physical workspace will never be out of demand, but it will be different. And landlords need to adjust to that.

If you're ready to embrace the change and future-proof your commercial properties with flexible office space, here are five reasons to partner with Launch Workplaces to make it happen.

1. We Were Born from a Real Estate Company

Launch Workplaces was born in a 128-year-old commercial real estate company as a way to satisfy our own needs.

We weren't created as a business opportunity to take advantage of rent arbitrage situations.

Rather, as a privately held commercial real estate company, we were constantly faced with the challenges of competing with institutional commercial real estate giants and their seemingly bottomless bankrolls.

And at the same time, we were getting tired of making massive lump-sum commission payments to commercial real estate brokers for negotiating against us.

So, we created a business to help alleviate these problems.

This means that we understand commercial real estate, we manage our own buildings, and we know what it means to build strong relationships with tenants.

2. Our Flexible Office Formula Makes Your Entire Building More Valuable

Our focus doesn't stop at the walls of our spaces.

We understand how to design a flexible office space that's not only a good business on its own but also makes your entire building better.

When we activate a space, it connects you with other tenants in the building, offers them added value and amenities, and, in turn, makes your entire building more valuable.

3. We Work to Make You Money, Not Against You

When you partner with Launch, we're just that: your partners. As opposed to a tenant on the second floor who's trying to make money by leasing space from you and then renting it out at a profit, we partner with you to add value to your building and to put money in your pocket.

4. You Can Be as Involved or as Hands-Off as You Want

As a commercial landlord, you've got a ton on your plate. And when you activate flexible office space in your building, you're just adding another hundred things to your to-do list.

Our goal is to make your life easier. We're transparent. We communicate well. We provide a ton of comprehensive reporting, including weekly updates during the build-out phase and in-depth monthly financial information.

Our goal is to make sure you're comfortable. Answer questions before you ask them. We're not just sending you a rent check every month.

And that means that you, as a landlord, have the option to be as involved or as hands-off as you'd like to be.

If you want to be involved in every facet of the space, then we welcome your partnership. And if all you want to see are the financial reports, then you can trust you're in good hands.

5. We've Paid the Dumb Tax on Your Behalf

There's a steep learning curve in the flexible office space. And that means trial-and-error can be an expensive way to approach the business.

Since we started this company, we've paid the dumb tax so that you don't have to. We've made costly mistakes, tried things that didn't work and found the ones that did, and developed a tried and true system to achieve the results you want.

At Launch Workplaces, we've seen first-hand what flexible office space can do for a building and would recommend it to commercial landlords as a must-take next step in future-proofing their business.

The reality is that you can never truly know if flexible office space is going to be the right thing for you because there are no guarantees. But with the right partner, you can make sure you've checked every box that will drive your success.

As a commercial landlord, flexible office space can be an extremely profitable way to transform your building and the business model with which you manage it.

Meet Mike Kriel, CEO of Launch Workplaces

Mike has been in the world of commercial real estate for decades, meaning he's worked on both sides of the management agreement.

After an extensive career with The Brick Companies, Mike was named CEO of Launch Workplaces in 2014. In that role, he set out to build flexible workspaces in Brick-owned properties as an innovative means to solve problems by filling vacant buildings.

Mike's formula proved to be a success. And since then, Launch Workplaces has evolved under his guidance, growing to offer its managed model to commercial property owners across multiple states.
Fueled by his love for the commercial real estate world and his passion for building and leading Launch Workplaces, Mike acquired the business from The Brick Companies in 2022.

Since 2020, Launch Workplaces has taken over management of and salvaged numerous locations that were set to close and continue to expand with locations in DC, Cleveland, and beyond.
Mike serves on the Board of Directors of the Global Workspace Association.

If you'd like to learn about how you can activate your building, get in touch with Mike to find out how Launch Workplaces can help.