## No time for a build-out in pivot to coworking

Landlords grab off-the-shelf furniture and phone booths to update and temporarily fill empty space

Nate Pinsley of Tishman Speyer and Federico Negro of Canoa (LinkedIn, Federico Negro)

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By Cara Eisenpress

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The quest to fill up empty commercial space has led landlords to repurpose offices as <u>film studios</u> or self-storage units. And after years of mounting expectations, residential conversions are finally <u>picking</u> <u>up steam</u>, but it's going to be a long ride.

So the quickest fix, especially as WeWork retreats, is coworking.

For landlords, this is a solution that doesn't require the peppy branding of WeWork or pink sofas of <u>The</u> <u>Wing</u>. The trick, instead, is to build out spaces simply from a new class of off-the-shelf modular furniture that turns a blank space into a workplace practically overnight. (If the trends ever reverse, these desks, phone booths and meeting rooms could just as easily disappear.)

"We can think of any space as being able to fit that demand as turnkey, ready to move in," said Nate Pinsley, who leads the in-house coworking program at Tishman Speyer.

A mash-up of independent workers, small companies or local outposts of out-of-town firms might not replace a full-floor 15-year lease, but tenants are tenants. Converting empty (or unleasable) floors into facilities with flexible set-ups and leasing terms is no longer just a way to bide time for landlords but an answer to customer demand that began to change even before 2020.

Rents for top tier office space have increased since 2019, though they recently steadied, the most recent <u>JLL office outlook report</u> found. In older and less luxurious buildings, leases have become <u>shorter and cheaper</u>. Meanwhile, more than three dozen WeWork locations shuttered in New York following the company's bankruptcy, leaving demand for landlords to pick up.

## The new back office

It's not just startups that seek short leases at shared workspaces. Individual freelancers and entrepreneurs, satellite employees of <u>employers in other markets</u> and — at Tishman Speyer — people or companies who are already tenants but are now looking for an annex, often temporarily.

Tishman Speyer launched Studio in 2018 and is not the only existing landlord trying out co-working inhouse. Durst has a coworking arm. Vornado works with coworking provider Industrious.

**IWG**, the Swiss company that owns and manages co-working spaces, signed deals for 867 new centers in 2023, nearly double the new signings during the previous year. It has more than 3,500 locations worldwide, many of them managed, the asset-light approach.

This corner of growth comes as the return-to-office trend seems to find its line: two or three days in the office, and two or three days remote. The hybrid model also lends itself to enterprises picking up small satellite spaces, especially for workers who aren't within commuting distance of headquarters.

"You can have your headquarters, but then your secondary and tertiary offices are super in flux," said Federico Negro, former head designer at WeWork who is now the founder of Canoa, which provides

design tools to commercial interior designers.

## Quick change

Given the tumult in the office sector, the prevailing attitude among office designers is that it's impossible to predict the future, Negro said.

Office floor buildouts now reflect that uncertainty.

"How do you buy 2 million partitions for one project that you might have to throw away a year?" he said. "It doesn't make sense and is super wasteful."

Building for flexibility means giving up the environmental permanence of an office designed just for you. That means no drywall and as little custom-made and permanent fixtures as possible. People who work in common or shared areas need quiet for Zoom calls. So-called focus pods — mini soundproofed rooms — are in huge demand as a result. Half of new enterprise build-outs requested them, WeWork found in a February report about office trends.

Room, a company started in Brooklyn in 2017 that makes these modular pieces — phone booths, meeting rooms, even pre-made full office set-ups — now serves 7,000 different businesses, including both high-growth start-ups and Fortune 500 firms, the company said. The largest flexible space operators, including Industrious, Knotel, WeWork, Tishman Speyer, SaksWorks, Breather, TF Cornerstone, Life Time, Convene and Canopy, have purchased over \$15 million from Room, the company said.

Room's innovation: pretty much anything, anywhere can become an office. And you don't need a director of furniture, fixtures and equipment to do the planning.

The company, which Indiana-based furniture manufacturer OFS acquired last year for an undisclosed amount, was in discussions to turn some blank space at Moynihan Train Hall into a makeshift lounge area for workers and events. This plan is currently on hold, but the idea has taken root elsewhere, including at a 5,000-square-foot TF Cornerstone property in Washington, D.C., where the whole space was created to be "construction-free," giving landlords and employers the ability to bring in different tenants with different space needs.

"When you are accepting shorter-term commitments from customers, your model relies on reusing the space for different generations and everyone has a great experience," Pinsley said. "The modularity is key, but you don't want cookie- cutter spaces."

Skipping the typical design process can cut costs by 50% or more, welcome savings.

"The world has changed," as Negro put it. "Are you going to spend \$200 a square foot [to build out] or \$80 to \$100?"

## **Coworking with coworking**

The office space might be temporary, but the flexible terms and designs seem to be permanent, according to Pinsley.

When an office in a Tishman Speyer building becomes available, leaders try to figure out if turning it into a shared space is strategic. The last five years of operation have given the company the chance to understand flexible spaces as instrumental to the bottom line,

If a shared workspace or other amenity, such as a conference room, makes sense for the asset's performance as a whole, the company might add it to the Studio portfolio.

"Flex went from being a solution to a problem in the building to being an important part of the value proposition," he said.

At The Spiral, at Hudson Yards, the 23<sup>rd</sup> and 24<sup>th</sup> floors are now part of Studio. There are Room phone booths throughout.

Current long-term tenants who hire a temporary project team and need desk space for them are frequent customers of Tishman Speyer's coworking offerings, which Pinsley said is a "full-stack office experience."

The company has spaces for co-working at nine New York City buildings, including 175 Varick Street, The JACX in Long Island City and The Spiral. A small office for 1-5 people costs \$900 per month at CitySpire on 156 West 56<sup>th</sup> Street and \$3,500 for 2-6 people at Hudson Yards.

While Pinsley declined to share financial specifics beyond the listed prices, he said that Studio's spaces are "financially performing alongside traditional lease economics."

TAGS

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