



THE COST OF COWORKING

This ebook covers the most important expenses in coworking as well what new cutting edge strategies in commercial real estate to make your space competitive. We conducted our research in regards to finding what to look out for in terms of planning and negotiation.



Table Of Contents

Part I: Leasing

Is Leasing The Biggest Hurdle To Your Profitability

Best Strategy For Leasing

Landlords In Competition

Avoiding Other Situations

Part II: Space

The New Cost Per Desk

It's People Over Profit

Open Areas Vs. Private Offices

Kpi's For Community

Part III: Maturation Of Services And Sales

The Future Is Collaboration

The Importance Of Community Managers

Risk And Reward Factors Of Services



Featured Industry Experts



Liz Elam

Founder - Global Coworking Unconference Conference (GCUC)

As the founder of the largest Coworking conference in the world, Liz Elam has led the Global Coworking Unconference Conference (GCUC) from inception to its current incarnation, expanding from the US to South America, China, Canada and Australia along the way. Liz boldly forayed into the entrepreneurial world in 2010, founding Link Coworking in Austin, Texas and later tripling it into a multi-property enterprise while becoming a prominent voice in the coworking movement. She took the plunge into the then-fledgling concept after 14 years working for Dell, managing multi-million dollar accounts and emerging as one of its top sales executives.

Liz's coworking research has been published in the Harvard Business Review, and her work has garnered press in the Sunday New York Times, CNN, CNBC, Investors Daily, Entrepreneur, Bloomberg, Dwell, Huffington Post, and Inc., as well as the cover of Austin Woman. She proudly served as the first-ever president of the League of Extraordinary Coworking Spaces.



Frank Cottle

Founder - Alliance Business Centers Network

As the founder of Alliance Business Centers Network, with over 650 Office Business Centers operating in 42 counties, and a previous owner and operator of twenty-two of his own Office Business Centers, Mr. Cottle has unique global management perspective and know-how developed during his 25 years within the Office Business Center industry.

Prior to his experience within the Office Business Center industry, Mr. Cottle was an executive vice president with the investment banking firm of L.E. Peterson and Company, where he managed US syndicated real estate operations. Mr. Cottle began his career in 1971 with Ardell Yacht and Ship Brokers where he was responsible for international sales in Europe and Asia. Mr. Cottle received his Bachelor of Arts degree from the United States International University in San Diego, and is a frequent speaker and contributor to real estate and Office Business Center symposiums throughout the world.

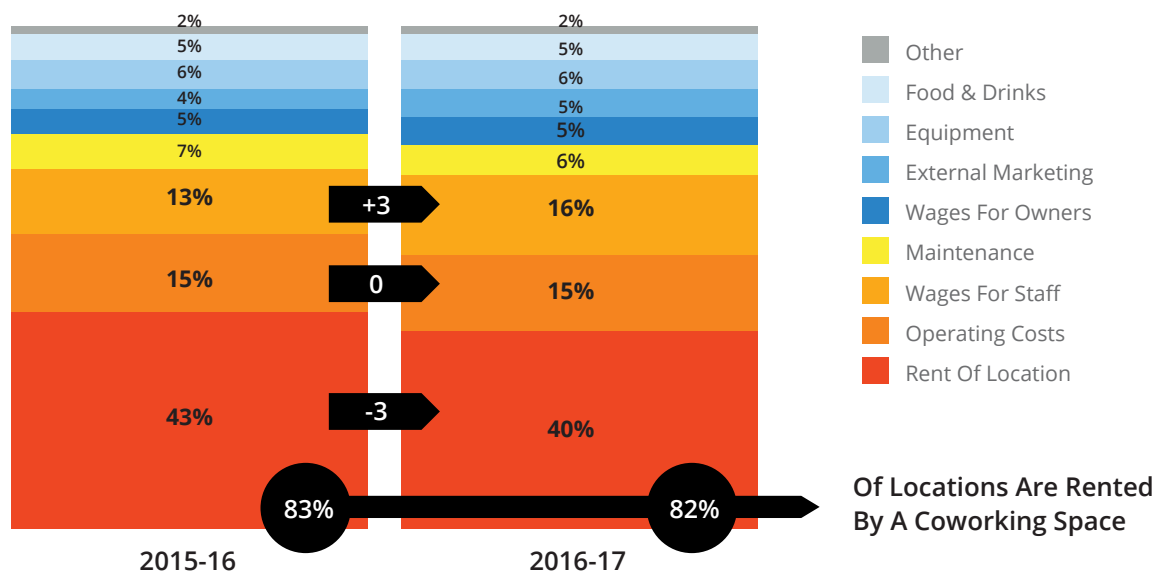
Is Leasing The Biggest Hurdle To Your Profitability?

As Frank Cottle, CEO and founder of Allwork.space explains, *“You don’t hear operators say ‘I failed because of my staff or a bad location.’ You hear failure because the landlord took over because of missing lease payments.”*

The lease is the master expense to your Coworking space as well as your highest expense factor. The first and most important obstacle to making your Coworking space profitable is finding a good lease on a quality facility. Of all the reasons operators have come and gone, it’s been bad timing on the leasing. Even if the space is profitable, a bad lease—usually from a poor negotiation—can still spell out a death sentence to an operator.

According to an article by The Huffington Post, The Future of Coworking, *“Coworking can’t completely take over the workplace just yet. One of the challenges of coworking is the vulnerability of the revenue model. Lease negotiations are very dependent on market swings. When the lease expires, some landlords push rent up as much as 300%. Suddenly, what was a perfectly viable, profitable business is now working hard just to exist.”*

Expenses Of Coworking Spaces*



A Decreased Percentage Does Not Indicate A Decrease In Absolute Number; Rather, It Indicates A Decrease Relative To Other Types Of Expenses

*Last year, missing values were classufued as ‘other’, this year, missing values were not considered, for the purpose of comparison, missing values were omitted for the overview of expenses for 2015-16 also presented in this chart



Best Strategy For Leasing

The best strategy is to be proactive and perhaps even partner up with a group that can get you the following knowledge:

- Coworking Business Model
- Understanding of The Current Market
- An Ability to Flag Pitfalls in a Lease
- Assistance in Due Dilligence Process of Signing
- Knowledge of Potential Building and Zoning Issues

Liz Elam, Founder of GCUC as well as the Owner of Link Coworking, believes that the chief component for why Coworking spaces fail to find profitability falls on the decision-making of the owner. Looking at the location and seeing if it's part of a thriving area is equally as critical. For Link Coworking, Elam found it ideal to be near a thriving retail space as it provided parking, visibility, and nearby places for clients to frequent.

Elam says, *"No one is going to get an ideal lease because landlords are smart. If you have an ideal lease it's because of a bad landlord."* Your approach to management agreements should be about mitigating risk. Liz Elam selected to have a 10 year lease, which at the time was not a popular move in the industry, but one that paid off as Link is one of the longest-standing Coworking spaces today.

Landlords in Competition

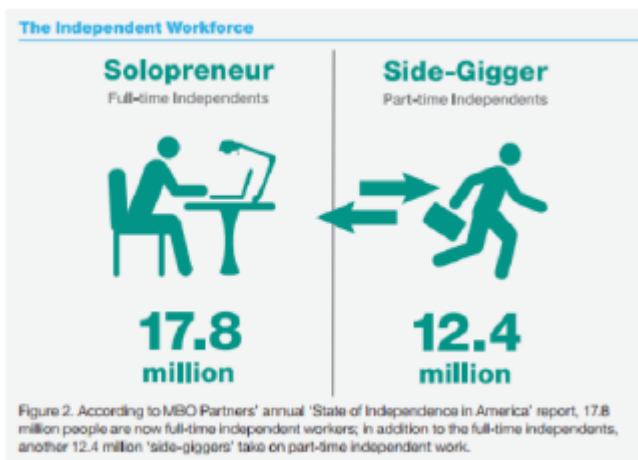
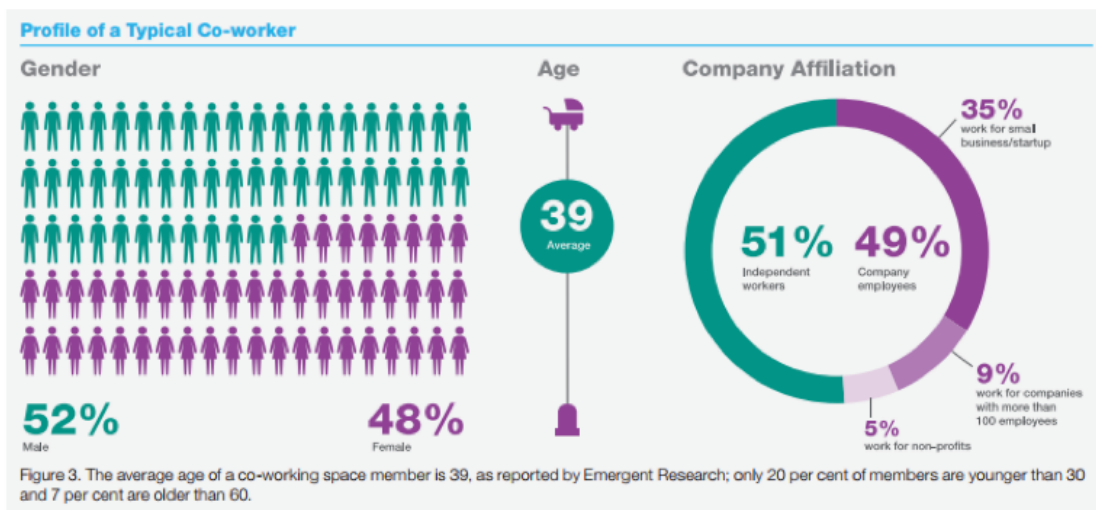
One major pitfall to watch out for is having the landlord being able to compete with your space. It happens more often than you think. The first and most important step is to see if your landlord is more collaborative than competitive. It may not be the landlord either, it can also happen with other tenants in the space.

This pitfall can be prevented by adding a non-compete clause into the negotiation of the lease. Especially with an increasing demand for spaces as well as businesses such as Convene coming to the forefront providing the services that can transform an office space to a Coworking space, it's more important than ever to chase down this provision.

How To Avoid Other Situations

The best step to avoid further pitfalls is to do a competitive analysis of your space. Gauge the demand as well as how it's being served by other work spaces in the area.

What you should look for is the general demographics, the amount of freelancers and workers from home, small businesses in the area as well as freelancers. This information could be found by taking an active role in your local city/community's chamber of commerce. Remember that an investment in Coworking is an investment in people (we'll get to that shortly) and understanding these demographics will give you a better blueprint for your growth.



Understanding this knowledge will give you significant leverage in your negotiation as well as an understand of which deals are better than others.



The New Cost Per Desk

Measuring usage in a Coworking space involves various metrics. Within a traditional office space, you'll find the term "cost per desk" as an effective means of measuring that amount of occupants as well as how much they contribute to the space. However, Coworking spaces offer open spaces and areas where people are free to roam. This makes the workspace more agile, not to mention with remote and virtual users in the workspace, there is significant usage of your space from people who are not even setting foot inside the workspace.

To measure space usage as well as the cost per person, a Coworking operator must look deeper into the demand of their dedicated workstations as well their shared spaces.

Here are some of the new metrics to consider:

- **Daily Peak Utilization-** The maximum number of people using your space within the given day.
- **Daily Peak Utilization by Business Unit-** The maximum number of people from a specific business or organization entering the Coworking space.
- **Average Peak Utilization-** The maximum rate of usage within various periods of the workday.
- **Frequency of Peaks-** The amount of times the peak usage of the workspace is reached throughout the month. You can use this to detect similarities and patterns of usage.
- **Assigned Ratio Per Building or Group-** The ratio of how many people you have assigned to a specific seat. It's best to compare this with the Actual Ratio of users using the seats.\

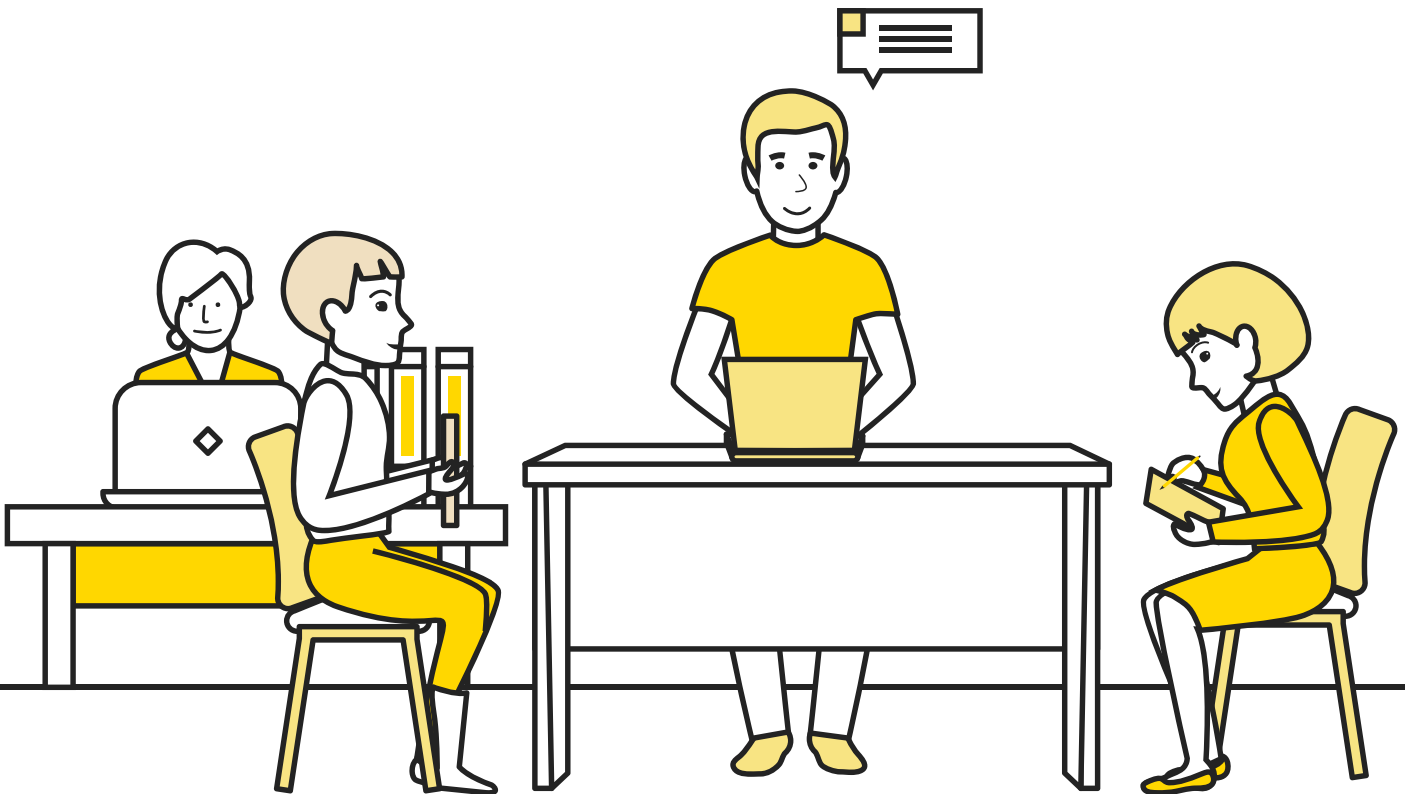
By using these metrics (which can be generated by reports in your Coworking Software), you can differentiate between how your space is being used rather than just seeing if the space is being used. Also by noting when demand for usage of your space and services is at its peak, you can understand when and how you should dedicate the most of your resources. When it comes to managing a Coworking space, keeping an eye on these details will help you remain profitable and successful.



It's People Over Profit

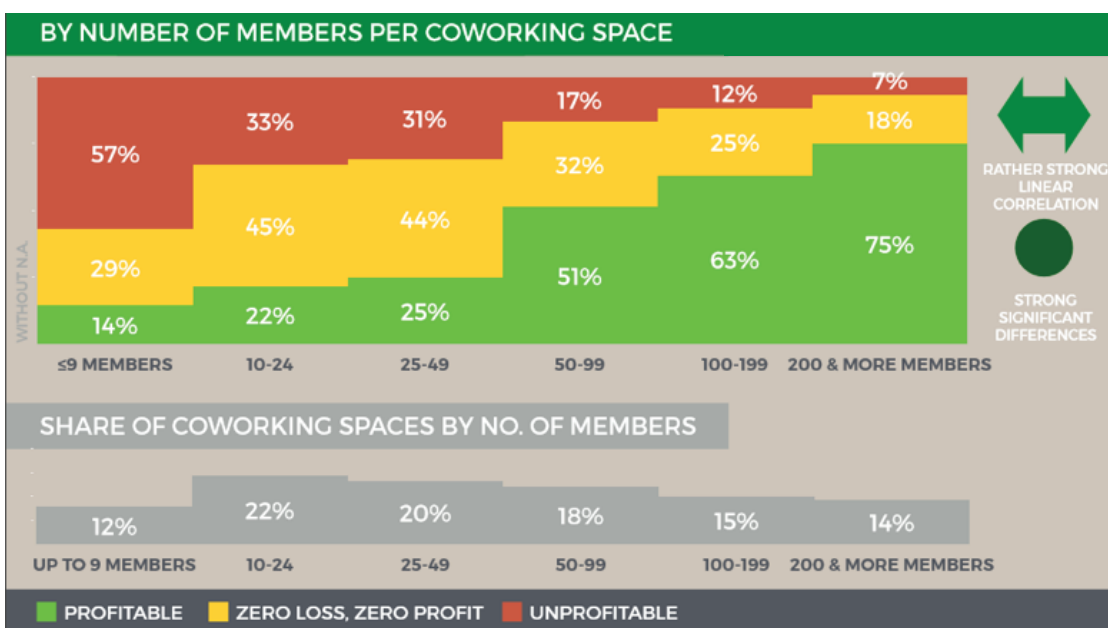
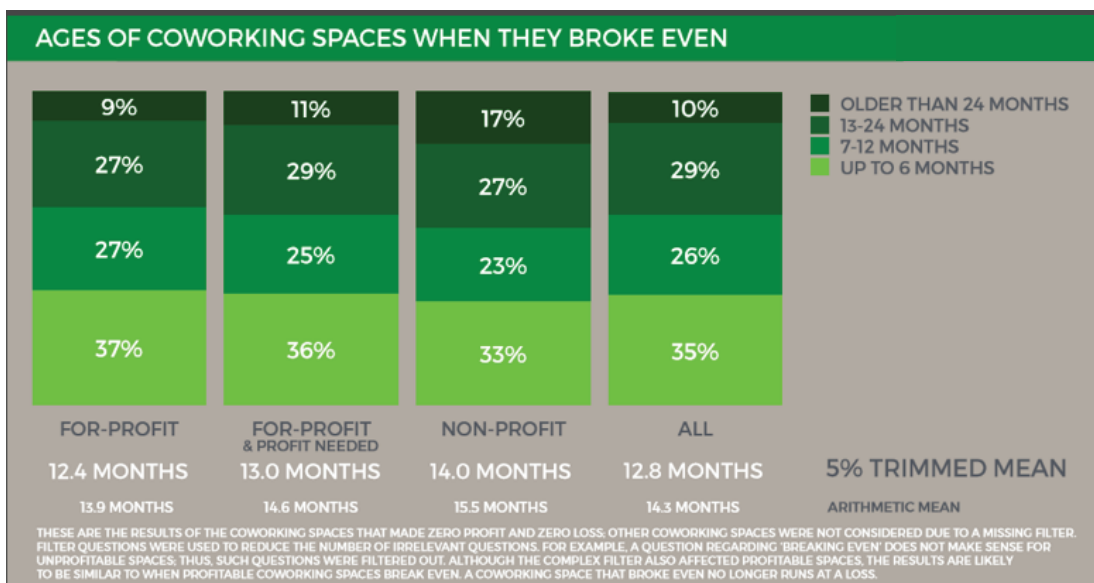
Providing a place that fosters new and progressive strategies for Coworking is equally as effective as having a space that is well designed and looks new. According to a piece by Knoll, Inc, *The Rise of Coworking*, "Why should CRE executives pay attention to co-working trends? In short, because people are a company's greatest investment, and their productivity and satisfaction are key to the organization's future performance and overall competitiveness. As a result, factors that influence and improve the effectiveness of staff will have a far greater financial impact than those that only affect space efficiency."

By embracing Coworking as a real estate strategy and following the current trends of collaboration, innovation, and technological integration you can make your space competitive by meeting the demands of new members. Simply put, fostering your network and community is as important as your interior design, furniture, and décor.



According to research by Deskmag:

- Coworking spaces with between 10 and 49 members have a profitability rate of about 40% - close to the overall average
- Local economies affect Coworking spaces: 56% of spaces with less than 10 members operate at a loss despite having lower rent to pay and lower overall operating costs.
- 9 out of 10 privately-owned Coworking spaces return a profit after two years in operation.
- Over 50% of Coworking spaces are not older than 12 months.



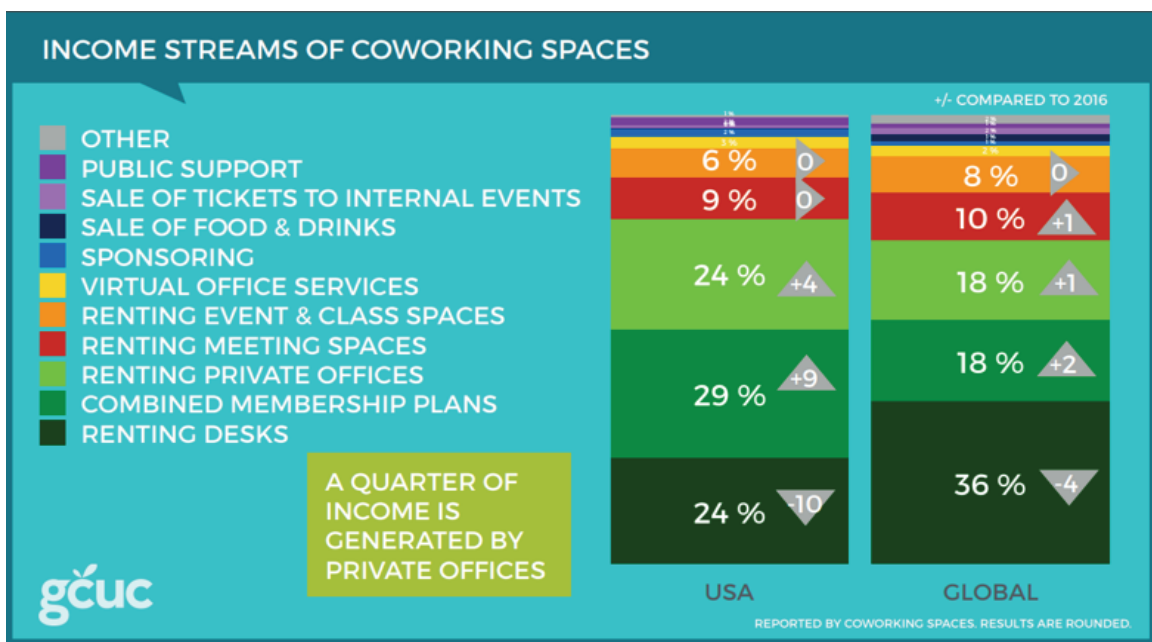
Open Areas vs. Private Offices

Frank Cottle notes that open spaces only account for 15-25% of the entire market. According to the Deskmag GCUC 2017 Global Coworking Survey, revenue from renting desks is down 10% whereas renting private offices has grown by 4%. This is indicative of the growth of corporate and more professional clientele coming into the space.

This demand is currently transforming the floorplans as we speak. As Frank Cottle explains, *“if you’re a government agency, let’s say you’re a human resources agency working for the federal government dealing with low income housing? Are you going to meet people that have that requirement in an open space? What if you’re an administrative judge, are you going to meet in an open space? I can go on, and on.*

You’ll find that most centers are most successful

WITH 50–60%
of private office space





KPI's For Community

Community is still a major differentiator, especially in workspaces that are highly agile. However, it's been reported that this is more significant in places with a higher member base as well as bigger cities with neighboring venues. According to Deskmag, *"Only in million-plus-resident cities does active coworking-community building have a positive effect on profitability."*

To measure how community impacts the workspace there are several KPI's you can measure strong community engagement will show an increase in the following categories:

- Usage of group work areas
- Conference room bookings
- Video conferences with members from different regions
- Collaboration among virtual users
- Usage of phone booths





The Maturation Of Services And Sales

Liz Elam believes that that the process to retention, recruitment, and creating recurring members needs to mature and evolve. *"You have to main levers to increase your earnings: membership fees and invoicing complimentary services."*

The Future Is Collaboration

Both Elam and Cottle believe that continually adding more things that are _____ as a service will continue deepening the partnership that is provided by Coworking. The key is finding further ways to collaborate and increase the usefulness of your space to the member. Liz Elam says that when you find a member saying *"I wish I could but I don't have the time to..."* you can always find an opportunity to offer more to your members.

To address this Elam believes in finding local businesses and partnering with them for promotional specials. For instance finding a local gym a few doors down and offering discounts and specials on memberships. Here's another step to consider. As it had been mentioned previously, Coworking spaces often have the services of freelancers operating within their walls. However, freelancers are often employed by members and seldom by the space. A rising trend today is in the reversal of that paradigm, with the space operators themselves finding the freelancers to help the businesses outsource their needs. As Liz Elam explains, *"What can you do to make their livelihood better. Be "sticky". Make it painful for them to leave. Be next to their gym or daycare center..."*

Offering free memberships and perks to neighboring businesses help businesses as well as

makes your space a bigger part of the community."





The Importance Of Community Managers

Liz Elam believes that the community manager is a key competitive advantage to your workspace.

Finding one with actual experience in helping a space grow is a rarity. On a scale of 1 to a 10, she would rank the utility of one at the utmost highest point. Frank Cottle believes there has always been a community manager, but under a different title with the same functionality. The purpose of a community manager is to:

- Help members understand your services
- Help members take full advantage of services
- Help members feel comfortable within the space
- Sell and upsell services for members.

Elam believes that it is essential to retain them and provide them with training to learn more about the industry such as sending them to industry conferences. She says, "People may look at a website as a first impression, second impression is communicating with the face of the company. They provide that human touch." Should you look to build this position from scratch, Elam recommends looking at people with experience being a concierge or providing hospitality experience.





Risk And Reward Factors Of Services

There will always be risks and costs with offering additional services to your workplace.

The most low-risk and high-reward service to offer is a virtual membership with a business mailing address.

It sells space that is rarely used, it provides a service that is paid for and easy for companies to retain, and creates a residual income with corporate clients. Cottle notes that this is a rising trend in workspaces as corporations are frequently moving around personnel, and having a space for remote users to stop by and meet when they need to is increasing as the workforce grows more remote.

In a previous ebook, we noted that Jamie Russo, President of GWA, believes that operators are having a bias against virtual memberships. Even if your space isn't open, you should make it a key part of the strategy to have virtual memberships as it's a revenue source that goes beyond space as service. It's imperative to get that stream rolling. The best part about virtual memberships is that you can even sell them before you open up your space.

As far as risky services goes, anything involving food service ranks at the top. Restaurants and food service is a tricky field that can often be wrought with theft. For food it's best to outsource and measure the costs. The next one is daycare. Offering child care services involves costs of waivers associated, regulations and laws in each state, as well as having other staff such as a full time medical practitioner which is required in places like Texas if there are more than 10 children being looked after.

An extremely profitable service to offer is a Visa program Offering a service for your members to work in whichever space, location, and city can go a long way in terms of keeping their retention and staying useful regardless of where they operate. However this does apply only to Coworking spaces with multiple locations.

Another service that is recommended is to charge a setup fee such as a lifestyle membership fee. This fee is only charged once, it gives your member the option to come back and feel as if they are a part of the community forever.

A rule of thumb is to see if there is already members willing to pay the demand that will cover the cost for the services. Regardless of the risk/reward, you do not want to jump into anything in the dark especially with a low member count and less than multiple locations.



About Yardi Kube

Yardi Kube provides all the tools needed to grow a smart and connected shared workspace.

Designed for overcoming operational complexities, Yardi Kube is a workspace management software and technology platform empowering operators to increase revenue, maximize productivity, and build community.

Yardi Kube provides a complete package for software, data management and voice services. Kube empowers operators and members with greater accessibility when it comes to billing, booking spaces, managing opportunities, and communication.



Increase Revenue



Maximize Efficiency



Build Community

Learn more about how a workspace management program
can optimize your coworking and shared space

www.YardiKube.com



Yardi® Kube

www.YardiKube.com