



**WHERE
TO FROM
HERE?** **The Rise of the
Flexible Workplace**

The footprint of flexible workplaces continues to expand as more and more global businesses embrace the modern workforce and the ever increasing options for work arrangements.

Co-working or work-share offices afford global businesses the flexibility they need in this dynamic economic and political climate, where we are witnessing technological advancement moving at an unprecedented pace and transforming how and where work is done.

So with this in mind, flexible workspace operators are asking themselves: ***“where to from here?”***

Opposite are 10 observations of what may be some emerging trends and opportunities in this space.

WORKPLACE AS A SERVICE

- 1.** On inspecting a co-work office you quickly identify that co-work users are not making their choice of operator merely based on the need for space: more important are the services being provided that extend beyond basic office facilities. Secure connectivity support, creative areas, exclusive spaces that can accommodate teams, security, catering and wellness facilities and the ***“look, feel and vibe”*** of the place are all important.
- 2.** A co-work operation is a ***“services”*** and even ***“hospitality”*** business that needs appropriate expertise. From an operator’s perspective, ensuring the planning consent conditions permit any ancillary uses to mere office use, employment issues, and even liquor licensing and food safety legal requirements all need to be adequately addressed.
- 3.** The scope and sophistication of the services offering will change over time. One thing to watch: there will be plenty of data in respect of occupier’s use of the co-work space that is capable of being collected and harnessed (e.g. how to work better from the space), subject to data privacy laws and what is agreed between operator and user.

ACQUISITIONS, CONSOLIDATIONS AND FINANCE MODELS

- 4.** Many REITS and property developers have sought to enter this space, but co-working is not a mere property play. The operators that are capable of reading the market for their respective sites, incentivise their staff, maintain a technological competitive edge and tailor their services accordingly will prosper. Expect consolidations, acquisitions and JV arrangements as capital will seek to cosy-up with savvy operators.
- 5.** As the need for co-working space continues to grow exponentially, operators will also need to consider how to finance the opening of new spaces, whether by way of joint ventures, arrangements with property owners or possibly even through other methods such as franchising their system. We anticipate there to be many innovative structures that will arise in the coming months and years.

THERE IS MORE THAN ONE MARKET AND NO SUCH THING AS A STANDARD AGREEMENT

6. Users/occupiers of a co-work site are usually described as “*members*” in standard “*membership contracts*”. Despite an attempt by operators to standardise the membership contracts there is clearly more than one market of potential users/occupiers. The needs of users and occupiers can range from a single self-employed contractor needing a flexible and funky work place to an international organisation that requires a dedicated space with medium to longer term tenure as part of its portfolio across multiple jurisdictions. Expect to see that on longer term arrangements of dedicated spaces, user/occupiers will seek amendments to the standard membership agreement that reflect a greater control of the space to the user, a more balanced allocation of risk and some “*bite*” to ensure that specified performance deliverables are met.

THE CONTENTIOUS RIGHT TO SUBLEASE

7. Traditionally the membership arrangement has been a mere licence, but as there is a take up of longer term dedicated space, expect to see the demand for something that has more of a look and feel of a sublease. Co-work operators, if they themselves are tenants, will need to procure a right to sublease preferably without consent of their landlord to make any such sublease arrangements achievable from an operational perspective. In some jurisdictions, a subtenant has the affirmative right to seek relief against forfeiture following termination of the head lease for breach. This will make the sublease right a contentious issue for operators.

MANAGEMENT AGREEMENT AND BRAND STANDARDS

8. Management Agreements with quite sophisticated arrangements such as key money, owner capital contributions, management and performance fees, centralised booking systems, technical services agreements, Brand Standards and bi-furcated structures with PropCOs and OpCOs and trading trust issues are a well-trod path in the Hotel property market. Will we see similar deals and arrangements and consequential issues emerge in the co-work market?

In some markets it may make sense that property owners take on more operational risk for higher returns and transact under a management agreement, a hybrid lease or some other arrangement rather than beyond a standard commercial lease.

9. More broadly, where does the value in co-work operators reside if not in their intellectual property, brand and operational standards. REITS entering into this space may eventually spin out their co-work division and landowners more generally may be prepared to transact under management agreement structures that follow an “*operator selection process*” that are already common in the hotel industry.

OTHER ASSET CLASSES: WHAT'S NEXT?

10. Work-share warehousing and logistics facilities? How about a single retail store that rotates its offering of boutique designers or a restaurant that rotates its offering of chefs on world flavours? What about a law firm offering excess meeting space for hourly hire? One thing is for certain: co-working is evolving in several directions, as might be expected in such a developing industry, and targeting different tenant communities as it does.

As part of a series examining the rise of the flexible workspace, we will seek to provide some general insight and analysis into what this means for corporate occupiers and their workforces that have or are considering utilizing these spaces, in the context of an evolving employment landscape. We will examine how businesses can protect their confidential information, trade secrets, data privacy, their brand and talent, while operating in these shared environments.

We will also explore what key considerations the major operators of these spaces will encounter if growth in this sector is realised at the rates predicted, and what are the broader impacts on the technology underpinning this real estate.

For further information and assistance on
'Where to from here? The Rise of the Flexible Workplace'
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