

Why Technology is Key to Delivering Occupier Flexibility

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RESEARCH

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Executive Letter

Flexible real estate is happening now, and it's happening fast.

Occupiers are demanding greater flexibility and exceptional in-building experiences. But meeting these expectations can bring significant risk, cost and complexity for landlords. The ability to align propositions to evolving tenant requirements means adopting and refining flex strategies that can attract and retain tenants.



Jeremy Bernard
CEO North America
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The office is undergoing a complete digital transformation. Occupiers want seamless in-building journeys and the ability to connect the physical and digital layers of the workspace experience. With software and technology, it

is possible to overcome the challenges of shifting from product to serviced focused office assets, and scaling while doing so.

This report highlights the critical components of the flexible workspace experience – from secure digital infrastructure, effective space setup, seamless operations, and mobile-first occupier interactions. There is no going back. The future of the office is flexible, and technology is enabling it.

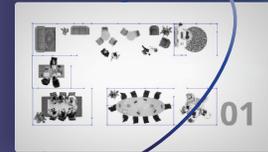
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Overview

Flex space is one of the most important and buzziest commercial real estate terms today. This office strategy, which focuses on providing scalable, flexible workplaces with secure technology, and adaptable spaces and layouts to accommodate changing occupier needs. Flex space is also a key component to supporting distributed workforces, where employees can be located either within a main office, a satellite office, or remotely from a home office or even a coffee shop.

Flex has become increasingly mainstream because it offers solutions to many of the challenges facing businesses today. Companies looking to rapidly grow, and that need a physical footprint, are able to more easily tailor these spaces to their shifting workforces. These benefits have been made all the more apparent by COVID-19, which has put stress on workplaces everywhere. While offices of all shapes and sizes have been impacted by the pandemic, flex space has proven an attractive solution to meet requirements for social distancing and safety measures. Flex space is also much better positioned to provide an alternative to 100% remote work arrangements than conventional offices that are fixed and static in layout, and without space services built in.

For office landlords looking to future proof their real estate portfolios, flex space is an excellent addition to more traditional space offerings. However, since flex comes with the provision of additional services beyond just space, and because it is a “high touch” way of providing offices to tenants, there is a greater opportunity for misalignment between tenant expectations and landlord flex propositions than in the classic office niche. Landlords who are out of sync with their tenants’ goals and needs run the risk of losing long-term occupiers and becoming irrelevant in the market.

Despite the challenges, flex space is no longer optional for landlords who want to thrive in a quickly evolving and competitive market. For this reason, Propmodo developed a survey on the future of flex space which we distributed to hundreds of leaders in the office world. We posed specific questions to occupiers, landlords, and brokers on both sides of leasing transactions, and were able to gain clear insights into the needs of both owners and landlords, as well as areas where their priorities are most prone to friction. This report will highlight the differing perspectives between landlords and operators and provide a number of suggestions for proactively addressing occupants’ growing needs for more flexible, agile and premium workplace experiences.

Propmodo Research

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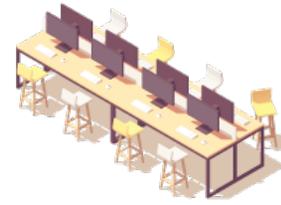
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Understanding the Flex Landscape

According to Brandon Medeiros, co-founder of the workplace consulting firm Alidade Partners, one of the biggest challenges within the flex space field is the lack of standards in the industry. “Imagine we didn’t have a defined system of weight and measures. It would be like selling a ‘bunch’ of wheat for three stones,” which is impossible to really quantify and base any meaningful commerce around. “We don’t have a tried-and-true vernacular for flex,” Brandon added. What one person considers flex space is what another person calls co-working, and this is to say nothing of the flex space spoken about in the industrial real estate setting, which is a combination of office and warehouse space. So what exactly is flex space?

Flex space as we are discussing it here is characterized by serviced spaces with amenities, technology and access control provided, where lease terms are shorter or more flexible than in traditional leases, and where the actual length of the lease document, with all of its clauses and provisions, is shorter than in traditional settings. This type of space can trace its lineage back all the way to the serviced offices that started with Regus near the end of the 20th century. In a more recent frame of mind, co-working is the comparison many people will likely make to flex, as both offer typically

shorter lease terms and provide more services than traditional leases. A decade ago, when WeWork was still new, co-working predominantly served individual remote employees and freelancers, who typically took a shared desk or a private office within a space. Over time, co-working players began to lease out entire floors or sections of floors to corporate occupiers looking to take space on a more flexible basis.



According to JLL, “Many of the operators that initially marketed themselves as co-working companies have since adapted their space and services for a corporate audience, with a hybrid of private offices and some co-working space.” This focus on enterprise occupiers has better positioned flex landlords to address the needs of bigger occupiers and not just freelancers and hot deskers as in the earlier days of co-working.

Today, a wide range of office solutions, from hot-desking to the classic traditional long-term lease, are on the market. In order to help keep track of the breadth of solutions now available, it is helpful to imagine an office flexibility spectrum. This spectrum has two axes, which represent lease flexibility and scope of service provided.

Co-working

Co-working should be discussed as a part of the flexible workspace matrix, but it is important to note

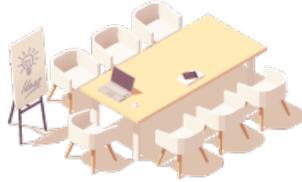
that this niche is different from other flex spaces in many ways. Co-working is defined here as spaces reserved on an individual or one-off basis by freelancers or individual remote workers in a shared facility, available on an as-needed or freely accessible basis. While a few big companies have risen to the top,

co-working facilities are also often run by small, independent operators who lease space in a building and make their subleased desks and offices available via membership-style apps like Croissant or Deskpass that maximize space user flexibility.

Co-working as we discuss it here consequently does not include arrangements where an operator, such as WeWork, leases out an entire suite to one occupier with a longer-term arrangement. Consequently, co-working can be seen to be a lower margin, higher effort type of space management typically emphasizing open space layouts and shared premises, with a focus on community.

Serviced spec spaces

These serve as a middle point in the flexibility spectrum, since they tend to have shorter lease commitments than traditional leases while implying a larger, more predictable lease size than co-working. Service options might range but by definition extend beyond traditional leases. Things can get confusing here, since many co-working operators like WeWork offer this sort of space in addition to co-working, but this spectrum is about space type, not company vertical.



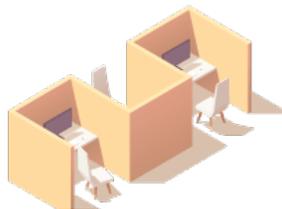
to say that any one type of space is better than the others, it is clear that flexibility is the way of the future, since more companies wish to preserve their mobility and scalability, and save their time for doing what they are best at, which is seldom managing their own workspace.

Offering flex space to enterprise occupiers might be a new office landlord best practice, but offering this level of service is rife with complexities. Many large organizations have stringent data compliance and security needs, which when coupled with flex space's typically shorter lease terms and greater emphasis on providing service, can lead to big challenges for unequipped landlords.

Traditional lease

At the far corner of the spectrum we have the traditional lease, which can span many years or multiple decades, is fixed in terms of size, and often includes less services, since the occupier will be expected to secure their own tech services, internal amenities, and beyond.

While these three steps on the spectrum are conceptually easy to understand, in reality different spaces will be all over the board, between these steps or aligned within them. While it might not be prudent



Occupier expectations

Office occupiers have a number of expectations when going into a new space, ranging from critical to wish list. Most occupiers regardless of size expect certain base level services including the following.

- Quick onboarding into their space
- Access control to determine who comes and goes

- Strong, secure internet connectivity and Wi-Fi
- Solutions such as space booking, technology services, and billing easily accessible via a digital interface

While every tenant will expect a safe, secure, easily-accessed space, larger enterprise occupiers tend to expect a higher level of service and in particular security. The expectations of these tenants include services like private phone and internet networks, on-demand technology support, as well as advanced technology like redundancy to maintain operational continuity in case of changes on the landlord, occupier, or market side. This last element is particularly relevant in a post-COVID world, as most occupiers will retain a good memory of 2020's disruption to operations due to the outbreak.

One area that predominates most of all regardless of occupier size or industry is a general need for premium flexible experiences and solutions for easy, on-demand space booking within and across buildings. In our survey on the future of flex space, a majority of respondents indicated that on-demand connectivity and tech services, streamlined access to space services, bookings and payments, and secure digital infrastructure were their most critical tech options.

This paints a picture of a market full of occupiers who

are turning to flex space for its ability to fulfill all of the many needs that come with occupying a commercial space. Making sure the phones are set up properly, ensuring that company data won't be lost or stolen, and having convenient, pain free access to breakout rooms and conference spaces are just some components of the level of experience that modern occupiers are demanding.

Challenges and opportunities in flex implementation

We've now considered a range of specifics as far as occupier expectations go. Now we'll discuss owner-side challenges and opportunities when looking to

introduce flex space into an office portfolio. These range from strategic financial decisions that owners need to make lest they be made for them, to specific operational strategies, and beyond.

Solving for occupier objections

Occupiers may hesitate when it comes to adopting flex space for a variety of reasons. According to Eric Thomas, a Senior Vice President with CBRE specializing in tenant representation, the biggest objections to flex space are "confidentiality, branding, ego, culture, and identity." For some occupiers, there can be a perception that flex spaces will strip away company identity, but in all likelihood this really stems

from the perception of highly-branded co-working spaces that seem to overwhelm occupier culture. Flex space is a totally different type of lease, with no particular rules or restrictions on branding or identity.

There is a similar explanation for the confidentiality concern, as well. While co-working is one type of flex space, there are plenty of other arrangements and spatial layouts that keep tenants within their own

private spaces, that would be more appropriate for businesses with large amounts of confidential data, like the high technology sector or law firms.

Optimizing a portfolio for easy tenant takeover

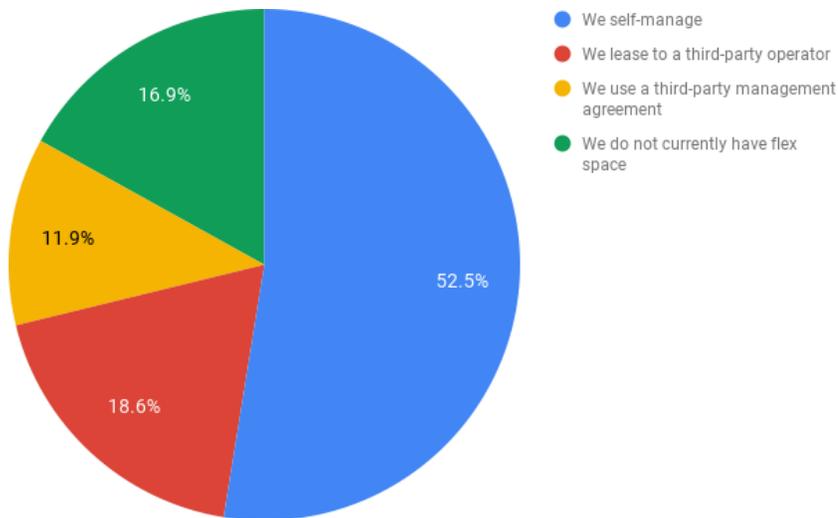
It isn't enough that owners provide flexible spaces for their occupiers. They must provide these spaces in a way that allows for easy tenant takeover when a lease begins. The alternative, to force occupiers to wait for days or weeks as services and rooms get configured, could run the risk of decreasing tenant satisfaction and increasing tenant turnover.

There are several areas landlords must focus on to ensure that their spaces are easy and quick to take over. Access control, enterprise services, and properly equipped spaces are the three biggest areas to consider.

Access control

Occupiers must have easy access to the spaces they lease. Typically, this is reflected in the provision of a robust access control system. Even before COVID-19 the implementation of this technology was widely seen as a priority by occupiers and landlords alike. Access control tech helps buildings with multiple tenants coming and going throughout the day to easily and sustainably manage dynamic traffic patterns in and out of the building, and allows

Top-priority tech amenities amongst occupiers



for remote provisioning of access to different spaces within a property. For instance, a user group containing all full-time employees could be given access to the entire leased space barring mechanical and IT rooms, while the contractor and service provider group could be provided access only to common areas and meeting rooms.

As the COVID-19 outbreak remade work patterns everywhere, access control, and in particular systems that allow for touchless building access (typically effectuated by a smartphone-based authentication system) have become even more widely discussed, and landlords who would never have heard about them before are now aware of how valuable they can be. However, if flex space is to be pain-free to access, adopting systems like these should be considered a priority adoption, not just a talking point for some time in the future. Taking a holistic approach to the tech stack, smart access should be a core component of the digital infrastructure that underpins the built environment, as a means to capture a richer data set about space and building usage.

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Think about the occupier user experience. With physical keys or keycards, each user must be individually provisioned with a physical item. This is time-consuming and logistically complex, and represents a particularly tangible stress point during the coronavirus outbreak. Ensuring that an enterprise staff has access to the right rooms could take a longer than planned, making it harder for the occupier to begin using their space.

On the other hand, providing access to a touchless access control system could be as easy as the click of a couple buttons, meaning every employee and vendor of each occupier has access from day one, hour one. For this reason, landlords should not consider access control an afterthought when planning a flex space rollout.

Enterprise services

Every flex space operator will offer a different bundle of services with their physical spaces. However, if we consider that many tenants share broadly similar high-level concerns, such as pain-free access to technology services, maintenance staff, and

easy billing, it's clear that there is a core bundle of enterprise services that landlords should offer in place from day one. Across the spectrum of occupier services, some aspects, like tenant experience apps and event programming, are not strictly necessary for operation. On the other hand, technology services like security and connectivity, if provided as part of the owner's service package, are very likely instrumental to why the occupier would choose to sign a lease at one building and not the other. These services must be in place and ready to go from day one in order to prevent dissatisfaction amongst brand-new tenants, as well as to attract and retain high-value enterprise tenants who have extensive checklists of tech and security requirements.

For the landlord, this means identifying what those core, bundled enterprise services include. There is nothing wrong with specifically asking occupiers what they consider most crucial and working to ensure that those technologies, services, or tools are most optimized for rapid rollout. Remember, in most cases more landlord-tenant communication is a good thing, not a bad thing, when trying to align more closely to what tenants need.

Insource or outsource?

Flex space is different from conventional office spaces, and with that comes a need for different management approaches than traditional landlords

may be equipped to handle or have historically handled. The immediacy of response necessary in flex space situations, the need to be able to redesign spaces to meet the needs of new tenants with entirely different workspace strategies, and the need to keep remote employees plugged into an office-based, core workforce are all critical components of the flex space business model that traditional office landlord organizations lack.

This divergence of focus means that some landlords may choose to outsource elements or the entirety of their flex space management apparatus to ensure easier service delivery to their tenants. In our flex space survey, we found that 53% of our landlord respondents indicated that they currently

self-manage their flex space inventory, with the rest divided between no flex space at all, outsourcing to a third party, and leasing to a dedicated flex operator. Out of those respondents, some indicated that the arrangement with their outsourced or leased flex space partner was working well, while others explained that they were having issues with areas such as reporting or collections.

One manager at Norwegian office company Entra ASA told us that their third party-run flex space actually experiences “lower utilization than budgeted for. Our big tenant organizations make little use of the flex space in the building, with more SMBs using it.” This is valuable information for an owner to collect, as it implies that the flex space is tailored in

such a way as to reward smaller organizations for use more than larger ones. The Entra ASA employee further told us that their team is “looking into creating a different type of flex space better suited for our base of large tenants and their structural changes in space demand.” This kind of analysis should include a careful consideration

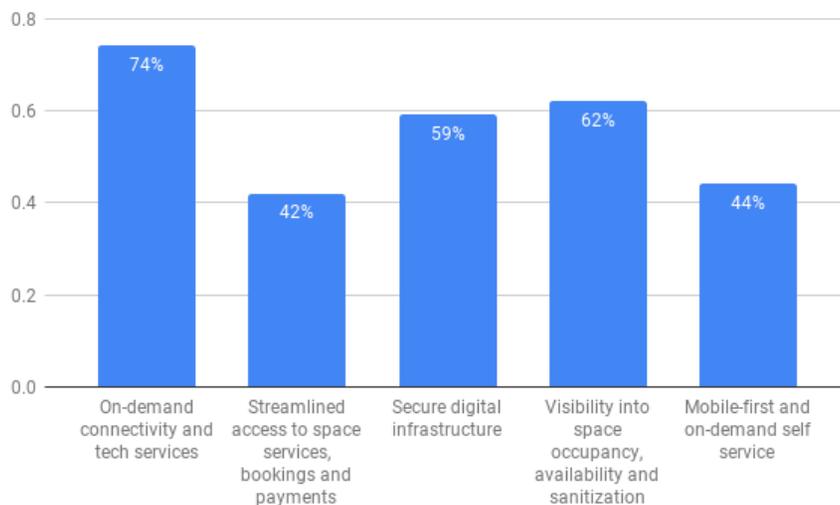
of what exactly those larger tenants want and need out of flex space, referencing many of the points described in the previous section.

It can be difficult to propose a single answer as to whether landlords should self-manage or outsource their flex space operation, but one thing that is clear is that it is getting easier for landlords to self-manage flex via the application of purpose-built software and technology to augment the traditional landlord skillset. If tech tools can handle many of the “flexiest” elements, like access control, tech provisioning, visitor management, space booking, and payments, landlords can focus on the business of real estate and providing excellent attentiveness to maintenance needs and business development. These tools can also equip landlords to deal with unexpected flex scenarios, like the default of a partner flex operator, or even taking over a space with a flex component built in.

Creating standardized experiences

In the early days of flex space when co-working was still the name of the game, one thing the big providers like WeWork offered was standardized experiences. Sure, in 2015 you could choose to work from a library or coffee shop for a lot less money than a dedicated co-working space. But working in these “informal” flex spaces leaves a lot of questions unanswered.

Landlord flex space management strategies



There is no way to guarantee secure and reliable wi-fi, or even a power outlet in most of these situations. Dedicated co-working spaces provided a predictable alternative to that variability. There should always be strong internet, ample outlets, and high-quality rooms to take phone calls or do focus work in, whether the facility is located in New York or Santa Fe.

Office landlords today should strive to offer a

similar type of predictability of service within their flex spaces. There are several components of this that are particularly worth talking about: scaling an experience, data needs, and automation.

Scaling a flex experience

Scaling a predictable flex experience might sound challenging given that flex is, at its core, highly dynamic and configurable. How do you ensure there is the same quality of experience when one tenant wants all hot desks and the other wants lots of focus spaces and breakout rooms? A good analogy here is to think of a LEGO set. The pieces can be used to make all sorts of different objects, but the same kit will always come with the same number of pieces and the same instruction book.

Landlords should take a similar approach to ensuring their flex spaces are predictable. Regardless of the size of the space or the occupier type, a certain baseline of connectivity, working spaces, and design should be provided across the board. This will not

only increase occupier satisfaction but will also lead to a boosted brand identity for the landlord himself.

A big component of this will probably come down

to staff training and internal expectation setting. Key staff across the entire portfolio should be brought onto the same page as far as a landlord's overall approach to customizability, service, and occupier experience management. This should help prevent surprises when an occupier asks for something “off the menu” or when new ones are added to the mix. At the end of the day this level of quality stems from proper training, expectation setting, and resilient systems use.

One tool landlords can use to establish consistency from space to space or even property to property within a portfolio is to invest upfront in the right tech solutions. Tech platforms are extremely useful in that they ensure a certain level of quality and a certain type of experience across the board. For instance,

if an app-based solution is used to reserve space or adjust HVAC settings in one building, the experience will be identical in another similarly equipped building that also uses that app.

This can be a gamechanger for landlords looking to offer spaces that can scale with their companies, or for landlords who want to serve an entire enterprise occupier across a range of spaces or even cities. Like McDonald's for fast food or Amazon for E-commerce, choosing the right tech tools can help landlords deliver the same experience every time, regardless of when or where.

Another element of flex scaling is implementation across a property campus, which is an area where this type of lower-lease obligation and higher-touch space shines. Landlords who add flexible, bookable spaces across their portfolio and make these spaces accessible to their occupiers, whether flex-oriented or traditional, set themselves apart from their competitors. With such an approach, tenants across buildings, campuses, or even states are given access to flexible spaces that work for them when they need them, such as during regional meetings or conference events. Making flex space accessible across a portfolio creates a consistent and seamless experience in which all employees are on the same secure network and have the same journey through the workspace, as well.

Landlords should work towards ensuring their flex spaces are highly predictable.

Beyond serving as a point of differentiation from other landlords and a perk for occupiers, offering flex space like this also helps build demand, since traditional tenants who gain periodic access to fully serviced flex space are likely to come to want the smooth access and worry-free space management that flex space provides.

Tech and data

Resiliency is particularly crucial when it comes to accessing tech systems like data management, cybersecurity, and connectivity. Problems in these areas can cause friction and diminish the tenant's overall quality of experience, potentially leading to churn even if the occupier loves a space's location, services, amenities, and design characteristics. Case in point: 87% of our occupier survey respondents mentioned that on-demand tech services and connectivity was a top technology priority. And according to a study commissioned by essensys, a provider of software and technology for flexible workspace operators and landlords, research firm Verdantix found that almost 70 percent

of surveyed occupiers were unhappy with the data security offerings in place at the flex spaces they viewed. According to James Shannon, Chief Product and Technology Officer for essensys, occupiers have a "hierarchy of needs when it comes to security. This starts with physical security, moving up to network security and then finally cybersecurity."

Another challenge in this sphere is that even outsourced flex management solutions will not typically handle these parts of the business. This

means that ensuring constant connectivity and data security is squarely within the landlord's wheelhouse in flex space situations. This is not an area where playing it fast and loose is acceptable, and so adopting a DIY approach can often fall short if providing tech

services is not a core competency on the team, not to mention the significant cost involved. A better solution is to leverage existing flex management tools purpose-built for converging the physical and digital sides of flex space. These solutions often bake in components such as data management and security in addition to the more classic workplace

solutions like space reservations and access control.

It is these systems that represent the heart of the future of work. James added that "Consistent tenant experience comes down to a lot of these services, like access control, security, visitor management, and signage." Access control is in many ways the cornerstone of high-quality flex space, since, as James explained during a Propmodo podcast, a tenant's "access is very dynamic based on what space they are going to on a given day." Access control technology is also conceptually crucial as it is one of the clearest examples of the blending between the physical and digital within a building. A compromised access control system jeopardizes not only building efficiency but also the security of occupiers and their work, as well.

Without a purpose-built, readily deployable tech solution to solve these critical tech questions, the landlord's next best alternative is both expensive and difficult to scale across a portfolio: hiring an outside information systems service provider.

Automation

As a portfolio scales it becomes more and more important that the most repetitive processes are automated. Of course, how deep to jump into the automation world is up to each landlord, but the fact is that many hassles and points of friction for the

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*James Shannon,
Chief Product and Technology Officer
essensys*

occupier can be reduced by implementing a certain level of process automation to the mix.

By now, there is a bewildering number of automation solutions out there from tools built into real estate-specific apps to custom-deployed code built by your own programmers to consumer-grade solutions like Zapier. When thinking about flex space automations, start by listing the most repetitive processes that you and your occupiers face. While this will vary to some extent based on your unique situation as a landlord, it is likely that there are opportunities to automate processes like occupier onboarding, maintenance requests, space booking, and visitor management.

But where to start? Landlords could choose to take the time to manually identify highly repetitive processes, interviewing occupiers to learn their unique pain points, and interviewing their own management staff to understand theirs. However, such an approach would be time-consuming. An alternative would be to rely on technology to identify opportunities to automate, leveraging the experience of other, previous landlords to avoid reinventing the wheel. There is a wide range of tech solutions

out there today that can help landlords automate systems such as access control, visitor access, and occupier space onboarding, itself a substantial process including network access provisioning, space permissions, and introduction to a tenant experience tool, if one is provided.

Gaps in the landlord-tenant dialogue

In addition to all the specific operational parts of running a flex space operation, it is also important

to consider where expectations are misaligned between landlords and occupiers. The essensys-Verdantix study also found that almost 70 percent of tenants would pay a 15-25 percent premium

per square foot for spaces that actually meet their full expectations. That same study also found that 60 percent of corporate occupiers plan to include flex space within their office footprint over the next three years, while only 53 percent of landlords currently offer a flex option.

Other misalignments come from times when specific expectations are out of sync between landlord and occupier. Some landlords might put all their resources into designing and amenitizing incredibly

attractive, welcoming spaces, but as we've seen through our interview and survey results, most occupiers tend to want the "nuts and bolts" of the occupier experience, like tech services, booking solutions, and cybersecurity, to be the priority.

Conclusion

Flex space takes many different workplace components such as access control, cybersecurity, and room reservations and packages them within a highly accessible lease context. This means that flex is uniquely suited to fulfilling occupier needs in the post-COVID landscape. But managing this kind of space is more time consuming and effort intensive than in traditional low-touch lease scenarios.

The right technologies can streamline many of these challenges, making flex space accessible for landlords in-house, rather than needing to go out to a third-party manager. In turn, self-managing flex space ensures a truly consistent occupier experience while cutting costs and maximizing long-term portfolio returns. Optimizing a property portfolio for flex takes careful planning and thoughtful consideration, but with the right approach, flex represents the ultimate competitive differentiator for the office world.

15-25%

The rent increase approximately 70% of tenants would pay, per square foot, for spaces that meet their expectations

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