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Coworking 2.0 – Transforming the industrial real estate market and generating higher revenue - by Rafael Alvarez

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It is clear that coworking has transformed both the commercial real estate industry and the startup ecosystem. By allowing small businesses and solopreneurs easy access to well-appointed, turnkey, flexible office space complete with fractional use of shared resources such as printing, conference rooms, and videoconferencing, coworking companies typically extract significantly higher psf revenue than traditional commercial landlords. Given the clear benefits to both landlords/operators and their customers, coworking is not only here to stay, but will continue to encroach upon the traditional commercial office space landlord/tenant model. Coworking behemoth WeWork was recently valued at \$45 billion and is rumored to be planning a very high profile IPO in 2019.

What is perhaps more interesting, is how coworking will transform other classes of real estate to serve the millions of businesses, workers, startups, and creators that can't use traditional office layouts because their work requires light equipment, or they may make a little noise or they simply require space configurations and amenities that you can't find at a WeWork. Common examples include high ceilings, full-height walls, industrial equipment, and storage options. Luckily there is an overabundance of underutilized class C industrial space throughout the U.S. ready to be repurposed to fill this market need, serving what we at b[x] call the "creator class."

While all this may seem elementary, serving this market segment with a coworking offering is not without its challenges. Simply choosing one city over another for a new offering requires significant research into local economic conditions, labor market breakouts, burgeoning industries, population patterns and even the municipal regulatory framework. While New York, Los Angeles, and San Francisco seem like obvious choices, preferences may become murkier when choosing between Atlanta, Oakland, or Austin.

Additionally, market timing is an incredibly important success factor. Launching a coworking location in an area too early, before it's ready, may result in a long lease-up period or even perpetually low occupancy rates and perhaps failure because you simply picked the wrong location. Launch too late, and you may forever compromise your margins and profitability because you bought in when that neighborhood was already too hot and you are overpaying for your inventory.

There are also a multitude of physical factors critical to successfully selecting an industrial building for a coworking facility that range from the obvious such as proximity to transportation to the more obscure such as building width/depth ratio or the southern vs. northern window/wall ratios. A detailed careful analysis of all of the varying characteristics of different buildings, neighborhoods and even cities is required to maximize usability and occupancy rates.

Finally, coworking operators face the challenge of attracting and serving a market segment that is fundamentally different than the typical office coworking customer base. The creator class cares far less about foosball tables, giant conference rooms, and workgroup printers and far more about loft storage, freight elevator size and the core functionality of their workspaces. Successfully building and maintaining a flourishing collaborative culture and member network for the creator class requires insight into the passion points, business needs and motivations of a different type of worker or startup than found at a WeWork.

At b[x], we operate three creator coworking locations in Brooklyn with a fourth opening planned for 2019. To fund our expansion we recently launched a Reg CF investment campaign which can be found at (www.republic.co/bx-spaces). Our customers include designers, VR/AR developers, commercial photographers, micro-manufacturers, and many more who need functional workspaces and the convenience of coworking, but in an industrial setting. By applying the coworking rent arbitrage business model to factory or warehouse space in ideal urban areas, we've been able to generate significantly higher revenue than is typically possible in a traditional industrial use. Moreover, since this type of space is both cheap and plentiful throughout the U.S., we capture enviable margins that are much higher than in office coworking while still offering space to our customers at far lower price points. As we expand, bringing the b[x] model to other cities we expect to lead the vanguard of coworking 2.0 beyond the office.

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