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SOUTH FLORIDA BUSINESS JOURNAL

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► FROM THE EDITOR

COWORKING SPACES INNOVATE DURING COVID-19



If you're like me, you probably thought you'd be back in your office by now.

Many of us had hoped to be at our workplaces by early fall. But that has not come to pass due to the lingering Covid-19 health crisis.

Still, it's been great to see how innovative entrepreneurs have adapted their business models to remain relevant.

This week's special report highlights innovators in one of the region's key industries.

Our Real Estate Journal kicks off with a look at how Covid-19 has impacted coworking spaces as many clients stay home due to containment.

Yet, our report illustrates how flex space companies that swiftly adapted are poised to flourish as more employers adopt remote work and opt to downsize their offices.

For example, advertising agency Hispanic Group moved out of its 7,000-square-foot office and inked a deal for space at Pipeline in Doral. CEO Jose Luis Valderrama estimates the switch will save the company about \$600,000 over the next three years.

Meanwhile, innovative coworking companies see the writing on the wall and have added remote coworking offerings to their services.

It's cool stuff that demonstrates that for every business challenge, there is a winning solution.

– Mel Meléndez

REAL ESTATE JOURNAL

PANDEMIC COULD FUEL GROWTH FOR COWORKING

BY BRIAN BANDELL | bbandel@bizjournal.com | 786-533-8215 | @SFB/RealEstate

Quest Workspaces was on a roll, opening 10 flex space locations in South Florida in the decade since its launch. But the Covid-19 pandemic sent many of its tenants' workers home, causing a 30% to 40% drop in occupancy at some of its centers. "The only clients that came to the office were essential businesses," Quest founder and CEO Laura Kozelouzek said. "I've been wondering since this started: Will people ever return to the office? Will work from home last? The one thing that is certain is there will continue to be uncertainty." The company illustrates how the pandemic hit the coworking and flex space industry like a thunderbolt.



"The initial reaction from clients was shock. Now they are bringing people back and they have a whole set of questions and requirements."

LAURA KOZELOUZEK, Founder and CEO of Quest Workspaces

Industry giants such as WeWork and Spaces, along with local coworking companies, have all been tested. For example, WeWork closed its 40,000-square-foot site on Miami Beach's Lincoln Road in July.

That's mostly because short-term leases — some on a daily or hourly basis — allow tenants to jump ship quickly. Common areas — once an attractive draw of shared spaces — suddenly became a major liability due to social distancing guidelines.

Companies that responded quickly to adapt their flex space operations will likely emerge the victors after Covid-19 as more employers embrace remote work options and consider downsizing their workspaces, experts say.

Kozelouzek focused on safety and "Zoom rooms" in her physical spaces and launched a low-cost remote service for those working at home. Quest offered the first two months free on leases of private suites and hourly rates starting at \$10. Business is now on the rebound.

"The initial reaction from clients was shock," Kozelouzek said. "Now they are bringing people back and they have a whole set of questions and requirements."

Even before the pandemic, coworking providers with big, open spaces were facing challenges, said Jeremy Larkin, co-chairman of NAI Miami Commercial Real Estate. It was hard for some employers to be productive in noisy, crowded environments. The negative aspect of changing law rates is that there's little cost benefit to spending on legal to collect hundreds of dollars, he added. Private suite centers will probably rebound faster because they are better for social distancing, he added.

"There will be a need for the coworking product," Larkin said. "I just don't think there will be a need for that many of them."

Office owners better hope the coworking and flex space market recovers quickly.

The amount of flex space in U.S. office buildings tripled to 9 million square feet between 2016 and 2019, according to J.L. Matthew Goodman, who manages tenant advocacy for the brokerage, said Miami has one of the largest concentrations of coworking and flex space in the country. If many of those spaces closed, it would put pressure on landlords to lower rents to fill them, he said.

"This is a business model based on density," Goodman said. "With social distancing requirements, it makes the density challenging. It's hard to fit the same amount of people into the space as it's designed for."

Initial challenges
Justine Suah and Meghan Morris opened Think Global Workspace in Miami in June, just as the city became an epicenter for the pandemic. Needless to say, finding clients for their Little River coworking space has gone slower than expected. Still, they've managed to adjust to the new normal.

The company has held off on buying a big coffee machine and other appliances for the break room as it waits for its membership to grow, Suah said.

"The fact that it happened when we were opening was a blessing to disguise," Suah said. "To have invested in coffee and snack machines and being stuck with the overhead while losing more than half of the membership would

make it hard for [an operator] to get back on their feet."

Many new members work for companies that have gone remote, but they aren't comfortable working from home, Morris said. Others are real estate agents who expose the coworking membership to their company.

"A lot of people need that separation between their work and their home," Morris said. "The social isolation is real for a lot of people. It can cause anxiety and cause a lot of people to be depressed."

Phillippe Houdard, co-founder of Pipeline Workspaces, said occupancy in his seven Florida locations has hovered between 80% and 90% since the pandemic. Members are still using the space in a diminished capacity, but he's placed plexiglass barriers between the seats and spread out furniture to facilitate distancing. Cleaning has been enhanced to pro-



ILLUSTRATIONS BY ETHANV BICKLE/STOCKGETTY



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Pipeline usually offered one-year leases, but lately it's been more flexible with short-term deals to bring people back.

"It may have been helpful for us to have more people on year terms, but, moving forward, people are more resistant and want short terms," Houdard said.

Kozelouzek said some coworking operators that expanded too fast won't make it, and Quest will be on the lookout to take over locations and help landlords.

"We will probably experience additional vacancies and expect those to be filled by people seeking flexible product after leaving Class A offices," Huse said. "It's clear a good amount of current customers [in traditional offices] will consider downsizing because of the way they expect to use office space."

Leaving the old-school office
Advertising agency Hivonak Group spent the initial months of the pandemic working remotely. Employees seemed happier and more productive, so CEO Jose Luis Valdemar decided it was time for a change.

The 23-person company moved out of its 7,000-square-foot office in Doral. It signed a deal with Pipeline in the city, where it has private space for two employees and access to a conference room when needed. Other employees continue to work remotely.

"My office expenses are around 90% less," Valdemar said. "In the next three years, I will save around \$600,000."

Houdard said Pipeline has been receiving more leads from companies looking to move out of traditional office space. The combination of private suites and open spaces gives the ability to physically separate employees.

Even after the pandemic subsides, people are still social creatures and they will want to return to a workplace environment, he said.

"Businesses are having extreme difficulty in predicting how much space they'll need even three months from now," Houdard said. "That's why the long-term prospects of shared work-



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General Provision founder and CEO Tim Hasse said he was seeking more locations early this year, but he halted his search because of the pandemic. Office memberships in its two Fort Lauderdale locations are down 15%, and he's concerned many members will let their deals expire because their businesses have been impacted.

"We will probably experience additional vacancies and expect those to be filled by people seeking flexible product after leaving Class A offices," Hasse said. "It's clear a good amount of current customers [in traditional offices] will consider downsizing because of the way they expect to use office space."

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Raoul Thomas, CEO of Miami-based CGI Merchant Group, which owns private suite company Nexus, said demand has increased in some locations as large companies seek private offices for employees near their suburban homes. Because of social distancing, each employee requires a separate suite.

“The leases are \$1,000 to \$1,500 a month,” Thomas said. “For a business generating hundreds of thousands of dollars in revenue, the rent is minimal.”

However, flex space providers may find competition from traditional office owners.

Jeff Shaw, CEO of Atlanta-based Bridge Commercial Real Estate, which owns six office buildings in South Florida, said small, short-term leases have often been overlooked because they don’t generate big money for brokers. But they present a sizable growth opportunity, he added. The landlord is building move-in-ready private suites in its buildings and offering lease terms as short as a year. Tenants have access to building amenities.

Bridge Commercial signed 27 private suite leases in six weeks this summer.

“You won’t see traditional offices go away, but people will learn new muscle groups after working from home,” Shaw said. “The traditional office becomes the hub, and maybe this

division works from home and this division should be in flex space.”

Coworking from home

Working from home has become more acceptable, but still has its challenges. That’s why some coworking space operators developed the concept of coworking from home.

General Provision launched (co)Work From Home to help companies offer perks to remote employees.

It includes a monthly care package that’s sent to their homes, which includes items such as coffee, an Uber Eats gift card, a cocktail mixer for virtual happy hours and a curated gift. There is also virtual programming. It starts at \$100 a month.

Hasse said about 100 people are members of the virtual coworking platform. General Provision membership has increased because of the virtual program, although its overall revenue is still down because fewer people are using the offices.

“Our business model isn’t focused on selling offices,” Hasse said. “It’s to build a community of members interested in connecting and building meaningful relationships, cultural events and upscaling opportunities.”

Small businesses don’t have the resources to boost team culture and happiness from a remote setting, he said. And that’s where his company can help.

General Provision’s program includes access to meeting spaces and common areas when employees need to get out of the house. There’s a virtual yoga and wellness class, and virtual chats with entrepreneurs. It can also match people with mentors in an accelerator program.

Thynk Global launched a remote coworking offering, as well. The video chat starts with a daily affirmation and brain warmup just before 9 a.m., then members keep the video open while they work on mute until lunchtime. There’s a roundtable chat at 12:15 p.m.

“Everyone’s watching to make sure you’re at work,” Morin said. “A lot of people aren’t used to working from home, and this adds a level of accountability. If you know someone is watching, you act a little differently.”

Quest launched a virtual office program starting at \$49 a month. It includes allowing users to receive and forward mail, using the business address for their company, phone answering services, tech support, and discounted access to meeting and conference rooms. The company also started webinars so clients can network and learn skills.

Flex space providers are realizing that leasing space isn’t enough.

“They can have the benefits of the office without actually going into the office,” Kozelouzek said. “It will be less about the space and more about the style of work.” ❧