John Arenas

CEO of Serendipity Labs Coworking, John Arenas talks with Greg MacKinnon, PREA's Director of Research, about the changes in the shared workplace model Serendipity Labs is achieving.

What sort of workplace model have you developed with Serendipity Labs, and how does that compare to other firms in the coworking industry?

We have created a coworking brand that delivers a workplace membership experience to satisfy mobile professional workers and project teams across all industry categories and company sizes. This means serving a broader market and larger customer base compared with coworking companies that focus solely on technology start-ups and young creative class workers. Knowledge workers are effectively free agents now, even corporate employees, so they also need a platform to support their own personal work styles. These workers have become sophisticated consumers, choosing where, when, and how they work. Serendipity Labs serves this incredibly mobile, digital, and connected workforce with service, hospitality, and inspirational design. As much as one-third of each location is designed for casual drop-in work or meet-ups, with our "worklounges," "labcafes," and "workbars"; about a third is designed for collaboration, meetings, and events; and then the rest offers dedicated workstations, private offices, and team rooms. Members have private places to work in confidence but also have access to a whole facility beyond the walls of their dedicated workstations.

You mentioned that this goes across all sizes of firms that are your clients. Do you have any concept of the portion of your clients who are self-employed or with a small organization versus with a large firm?

There is a preconceived notion that coworking is for small companies or early-stage ventures. The reality is that because companies are trying to reduce their real estate obligations while serving a mobile workforce, there is a huge shift in corporate real estate to make the overall footprint more variable. About 40% of our members are employees of established companies and about half of these have their memberships paid directly through a central corporate purchasing card. New mobile workplace policies allow others to be reimbursed for the costs of membership. For these companies, Serendipity Labs is an extension of their corporate real estate footprint—and a way to attract employees by supporting their employees' desire for good workplace choices and mobility.

Greg MacKinnon
PREA

About 30% of our members work for small companies and ventures. Some of those ventures could be termed start-ups, but they are mostly veteran technologists who have been working for many years and are venturing out independently—kind of "start-ups for grown-ups." Our service meets corporate service-level standards, security standards, Sarbanes-Oxley, HIPAA; our members need that, and the companies they work for or contract with need that.

About 30% of our members are self-employed professionals, consultants, and marketers. Many of these workers have another primary office but use Serendipity Labs as a secondary workplace. These mobility members have access to our full network of locations.

More interesting perhaps is that women make up 40% of our membership. Unlike the technology start-up–saturated coworking, which fosters a very post-adolescent, male-dominated "bro-grammar" culture, the other end of the shared workplace spectrum is business centers and executive suites, which also tend to have a very high percentage of male baby boomer executives. Many women in the workforce want to work in a place they feel is welcoming and meets their particular concerns about design, style, decorum, safety, security, and community. Serendipity Labs is a female-friendly brand.

Part of what you offer to members is space, but presumably, a lot of other features are important—IT capabilities and various other features. What are the critical elements of this kind of facility?

We have very exciting designs to our spaces and to our facilities, and people notice and comment on the designs. But I always take it a little bit wrong when someone says, "That is really great space" because if that is all the person has noticed, then we are doing something wrong. What I mean by that is once people visit a Serendipity Labs location, they should be immersed in an intuitive member experience and community; they should feel that they know how to be a member, they know how things work. The magic of that are really two things more than space—technology and hospitality.

All of the workplace technology has to be secured and meet corporate service-level standards. For example, if you work in a coworking space and want to print something, you want to know that the common printer isn't printing your job until you go over and request that job. The way Serendipity Labs works is that every member has a card with an RFID in it, so the copier knows the member when the card is waived over the copier and prints the job. No one sees the member's work. That same card allows members to gain access to certain more-privileged areas in the facility such as a dedicated workstation. The cards let members through the front door, check them in at the front desk, and let the front desk know if they have guests coming or rooms reserved for meetings. We have created a robust technology platform that goes well beyond the usual things many people might think about—mobile apps for booking and incredibly secure and redundant Wi-Fi. Beyond all that, the card allows a member to say, "I have this card, and it lets me do all this stuff, and it is easy." At the same time, that member's company feels comfortable that we are meeting enterprise standards for security, document management, and confidentiality.

Just as in any great design, some things members don't see; they just enjoy—not so much what the space looks like but how it performs. For example, sound attenuation. In a typical coworking place or business center, you have to be concerned about what the person in the next office is hearing because you are speaking near a return air grill and the person in the next office is listening from a return air grill. We duct all that. There is a lot that goes on to make the experience more than just space—also technology, hospitality, and the design elements. That is all about service delivery. If you are sitting in your office and it is beautiful space and you can hear the person next to you or you print your document and someone else picks it up, how good-looking the space is doesn't matter.

Is reconfiguring a new space into a Serendipity Lab much different than renovating a standard office would be?

Without exception, we completely gut the space we are going into to make the space to our standard. There is nothing we can save from an existing installation because we renovate to our brand standard using an integral approach. Our end-to-end design is more sophisticated, but it is not necessarily more expensive than a standard corporate office build-out. We tend to spend on the same order as a corporate for all-in per-square-foot cost and furniture, fixtures, and equipment, but we like to think that everything we do is with a return on investment in mind. For example, if a company creates new space for its employees and gets it wrong, then the employees just have to suffer through it, and they grumble about it. If we get it wrong, we can't generate the right revenues. People vote with their feet every day about which workplace works for them and whether we are providing value. It leads to a very efficient, disciplined design approach.

I guess you'd better get it right the first time.

Thankfully, this is not our first time. We've been in the business for 20 years and have great partners, such as Steelcase with its research insights and design support. We also measure all the activity usage of each room by triangulating Wi-Fi and seeing hot spots that are being used. We also do observational data in our test centers. When we have a new installation in a new setting, we try to understand whether people are really using it and how they are using it. If no one is using a particular conference room in a corporate office arrangement, nobody knows. But that same kind of room is a revenue generator for us, a core service that is required, so we have to get it right.

I notice you have a location in Rye, NY—one story in what was previously retail space. At the same time, you are opening a location in Midtown Man-

hattan near Grand Central Station. You seem to have a very wide range of properties you are looking for revenue from.

We have more than 50 locations—joint venture, owned, or franchised—committed around the US in properties across many asset classes—retail, hotel, high-rise residential, and office properties. We are in a 1.1 million–square-foot office building in Chicago. We have a management agreement with that building owner for about half our 30,000-square-foot location, and we signed a lease for the other half of the space. The owners of this asset were consciously trying to bring in a professionally managed tenant amenity, so they can get higher rent and more value in the building. They just sold the building after introducing a full workplace amenity set that included bringing us in, raising rents and occupancy. As a result, they have done very handsomely with that. We are not just a tenant; the building is actually subsidizing membership for the 3,000 workers in the building, plus we have public membership. That is an example of an office building.

We are going into two floors of a high-rise residential tower that is under construction in downtown Miami. Our presence is helping the building owners market the condominiums; they can say, "We have coworking, car share, a hip restaurant, and a rooftop pool." But coworking is more than an amenity; as apartments and condos get smaller and smaller, people are living their lives outside their bedrooms and living in these live-work urban environments. If you live in a 500-square-foot apartment, you need an adjunct place to work—hence the coworking facility on the second and third floors.

We are going into a mixed-use development in northern New Jersey that is retail and hotel. It is a Marriott Autograph. We are integrating into the mezzanine level and becoming part of the solution for guests who want to maintain momentum when they are working. In that case, our coworking offering is increasing the asset value of the hotel.

We have increased the asset value of a hotel, a high-rise residential tower, and an office building. Our test center is the building in Rye, which is actually a freestanding retail building. We have designs to build these coworking sites on neighborhood retail pads—20,000- to 30,000-square-foot buildings—using a triple-net type of approach.

We have also been working with a couple of the major hotel brands, helping them understand how to integrate Serendipity Labs into their conference center hotels. We have all been to conferences where trying to get work done, meeting with customers, or preparing for a meeting is almost impossible because there are no small meeting rooms available on demand. You can't have a private conversation anywhere because there is always a competitor or somebody sitting next to you, and you really can't work in your room or the bar for all the reasons we know. Putting a Serendipity Labs location inside a large hotel conference center is an amenity for selling group business, which sells guest rooms. The coworking space also allows hotels' preferred guests to experience a brand even when they are not staying there. At large conferences, people are staying in every hotel in town, but when they go to that conference center, they get to have a new experience at that brand.

Hotel owners, office owners, and retail owners are reacting to the shift in how people live and work and how they want to live and work. To do that, they have had to change their products. It is not intuitive for a hotel to get into the workplace business, but conferences in hotels are workplaces. Home is a workplace, so that is why we are in the high-rise.

Office assets have different challenges to reposition themselves, to attract a new tenant base. Sometimes a building has structural issues or design constraints; in a building that was perfectly fine for 1990, the floor plates are no longer the right size and the elevator speeds are not enough for 2015 and beyond. Office densification means that there are more workers per square foot. How does a building support that? How does a tenant support that it has fewer square feet and the same number of employees? How do you provide a service that supports mobility and transience? When everyone had a desk, that was 1985. Now the one-to-one desk ratio is seen at a corporate level as fiscally irresponsible.

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So what do you want as a corporate occupier/tenant? If you want to be in a building that has an amenity that allows for overflow and spillover—that is great for you. Plus you'll have some sizzle for attracting and retaining employees. If you can also say that the employees who are members of the Serendipity Labs have access to the whole Serendipity Labs' network as it grows, that is even better.

That is what is happening throughout the asset classes. We are also going into mixed-use developments, where developers are selecting the right hotel brands, the right restaurants, and the right retailers to put into projects. Now they are looking for the right coworking brand to help activate the project and give a strong sense of destination and vibrancy. Municipalities are now asking and sometimes requiring developers to add coworking facilities, and they call us.

You look at a lot of different kinds of spaces, but when you actually choose a new space, how much is location versus price?

The rent for a location is a good proxy for the value of that location. In our business model, it is not directly a one-to-one correlation because there is a limit to what we can charge for some of our services. When deciding on a location, we look at some of the other elements—the efficiency of the floor plates, whether we can get some retail visibility or access, and what kinds of tenants are in the building. Lower floors in large office buildings tend to be less-expensive floors. Everyone else is paying for a view on higher floors, and we are paying to be viewed, with second floors offering visibility from the street. But the most important factor is when an asset manager of a property is intentionally bringing us in to create value as a shared tenant amenity. When that's the case, we can share in the economic pie with lower costs or lower-risk arrangements such as revenue share leases, variable rent, profit sharing, or landlord subsidies of tenant memberships for all the people who live or work in that asset.

Do you see any emerging trends on the horizon for Serendipity Labs or for the industry overall? What is around the next corner?

It's now all about the worker becoming the consumer of the workplace. We just left a phase of retrenchment, where companies have learned to reduce their real estate costs. Now, employment growth is starting to pick up a bit, but the trend has been to reinvent and reduce corporate office space to support a mobile workforce who needs better choices.

Office building owners are also focused on delivering new workplace choices. I frequently hear from asset managers, "We've tried to do this ourselves—we created the space, our architect put in all this nice furniture, and nobody used it. We know we have to do something, but we know we are doing it wrong. What is it?" In our view, they are usually not delivering an experience; they are not delivering hospitality; they don't have the right technology in place. They are just putting furniture in, which is where we started this interview. They are putting millions of dollars into a building trying to answer the tenant's desire to have a shared workspace in this building as an amenity. The prospective tenants used to ask, "Do you have a gym?" and "What is your parking ratio?" Now it is, "Do you have a workplace amenity for my employees? Because if you don't, I have to go to the next building." It is really the tenants and the property owners both reacting for the very first time to a consumerized workplace. The people who are making this happen indirectly are all the people who have three mobile devices and can work anywhere, and they are choosing where to work. If you are an asset owner, you want to support mobile work because those are the companies you want; the kinds of tenants you want are trying to offer choices for their employees. It is really just at the tipping point of this enormous shift in demand for better ways of working, and that is why you see huge valuations for some coworking companies. ■

Thank you very much. Our members will be very interested in this.

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