

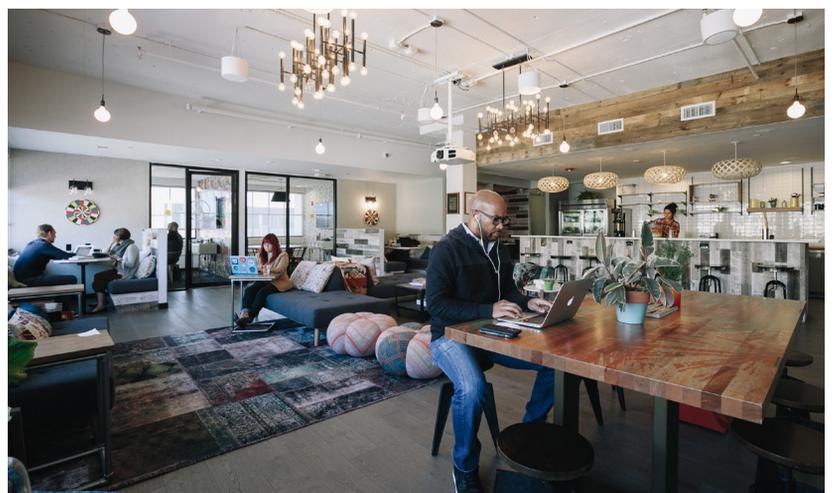
WORKING NINE TO FIVE

Thrive



THE EVOLUTION OF WORKSPACE

Produced by Richard Collings & Rob Sykes, WATG



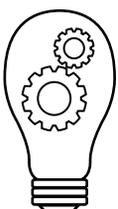
WATG



INTRODUCTION

WATG has been designing destinations for over 70 years. An understanding of hospitality is inherent in every design decision we make. Increasingly, we see elements of hospitality permeating other real estate sectors, and we relish the opportunity to transfer our skills in multiple directions. The workspace environment is one such sector.

In this paper we examine how office design has been influenced by the hospitality industry and how the evolution of the work environment is now driving hotels to innovate. Recent times have seen a range of interesting hybrid models emerge, several of which are referenced in this paper.



This piece was compiled by WATG Strategy in partnership with WATG Architecture. We offer clients market research-led pre-development advice, programming and financial feasibility to help simplify the complexities of hospitality development. WATG Strategy works seamlessly with our design studios to create award winning destinations that maximise economic performance.

THE EVOLVING WORKSPACE

WORKSPACE AS A SERVICE, NOT A COMMODITY

It is crucial for developers to find creative ways to add value to their office schemes. Increasingly, lettable space is given over to supporting facilities in tandem with hotel-like services that support tenants in both their personal and professional lives.

The recently completed (and fully let) White Collar Factory by Derwent in Old Street is an excellent example of this. The requisite ground floor café and roof terrace are in evidence, but the building's lifestyle services extend to bicycle maintenance, dry cleaning, restaurant reservations and booking of 'sold-out' shows or sporting events. How long before Les Clefs d'Ors count office concierges amongst their membership?

TwentyTwo in Bishopsgate also sets out to 'embrace structural and cultural shifts in the way we work and live, featuring over 100,000 sqft of varied amenity spaces for its community of 12,000 workers'. The concept, in many ways, resembles a hotel more than an office, with 'a lobby that's an art gallery with discrete high-tech check-in and personal service'.

WORKSPACE AS AN EXPERIENCE

Hotels are increasingly moving away from standardised design, instead offering their guests a unique experience during their stays. Today's hotel rooms are flexible, adaptable and offer privacy, individuality, and customisation in reduced footprints.

Similarly, in recent years, there has been a trend in office design away from the typical clinical, corporate environment towards something softer, more engaging and with a touch of flair. The employee and client experience are dictating a personalised approach from designers, as no two offices or businesses are the same.

The workspace analogue of this drive for more freedom and choice takes the form of Agile and Activity Based Working (ABW) where companies are offering their employees a variety of workstations and spaces to think, create, connect and relax. Employees in top-performing workplaces — those that balance focus and collaboration — are happier and outperform their peers on critical business measures. It's all about providing spaces that empower staff and guests.

WORKSPACE WELLNESS

Wellness has been a key driver of growth in the hospitality industry for many years and continues to be so with spending set to increase by 50 percent from 2015 to 2020. Wellness extends beyond the spa, as travellers and workers aspire to higher levels of health in their lives and want this reflected in where they choose to stay and work.

The launch of the WELL Building Standard in 2014 marked a significant shift for the commercial property market from building fabric and operational metrics, to a more human-centred conception of health and wellbeing.

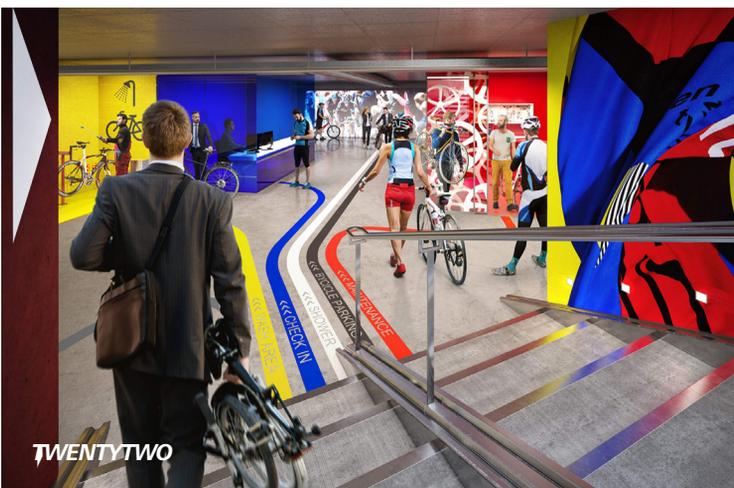
Eye-catching headlines proclaiming sitting as 'the new cancer', whilst hyperbolic, do demonstrate genuine health concerns. The increasing prevalence of sit/stand desking and high-meeting tables are a response to this.

It has long been a requirement of planning, and a credit under green building standards such as BREEAM and SKA, to provide facilities for cyclists and showers. However, landlords and employers are going one step further by catering for occupants' desire to work out during the day or at lunchtime with wellness classes, personal trainers and on-site gyms.

'Create, work and unwind in equal measure.'

- MORTIMER HOUSE

Evidence that wellness as a concept is not exclusive to the gym can be found in Mortimer House, the recently opened private members' workspace in London's Fitzrovia. The venue, which is the brainchild of Guy Ivesha (founder of development company Maslow's), describes itself as a "work and wellbeing destination". The layout of the building was inspired by their philosophical namesake's 'hierarchy of human needs' with a gym in the basement tending to 'physiological' needs, workspaces on intermediate floors for 'belonging' and social and event space on the top floor taking care of your 'self-actualisation'.



FREELANCERS AND THE (S)ME GENERATION

Out of a somewhat 'fusty' and rigid office sector, has grown the dynamic concept of coworking. Globally, there are nearly 1.2 million registered coworkers (2017 Global Coworking Survey).

The timing of the rapid growth of coworking also has a lot to do with a change in the way we work and the economic cycle. Economic downturns have always stimulated a boom in start-ups and innovation and, the most recent cycle has seen an explosion in the growth of SMEs and the rise of the entrepreneurial culture. According to Companies House, 645,000 new businesses were started during the 2016/17 financial year in the UK, the highest ever annual level and a six per cent rise on the previous year.

According to the European Forum of Independent Professionals (EFIP), between 2008 and 2015 the number of independent professionals in the EU rose by a quarter (24 percent) from 7.7 million to 9.6 million. And this, set against a backdrop of a workforce which dropped 5.0 million in size over this period, is a major shift in dynamic. In the UK alone, the number of small businesses grew by 97,000 between 2015 and 2016, reaching 5.5 million businesses in total. This wave of professionals going freelance, and the boom in start-ups, has fuelled growth of the coworking sector. Indeed, at the beginning of 2018 WeWork became the largest occupier of office space in London (after the UK Government) according to Cushman & Wakefield, underscoring five years of impressive growth.

The wave of urban 'lifestyle' hotels that have permeated the market over the last decade (such as the Hoxton and the Ace Hotel) have inadvertently provided the nomadic worker with an ideal habitat for free. The animated ground floor environments typical of these hotels are no longer considered private space for guests, but semi-public and welcoming to all. Such an approach creates a vibrant atmosphere and elevates the perception of the hotel as a place to see and be seen, but it presents a challenge for operators.

When successful, the PR mileage is invaluable. Thus, room night demand and rates can be given a healthy boost. However, from a hard-nosed economic viewpoint, there is a pressure to extract maximum revenues out of each and every square metre of space. This is especially sensitive in prime urban locations where real estate values put pressure on the developer/operator to achieve appropriate returns targets.

THE WORKSPACE THAT PLAYS TOGETHER, STAYS TOGETHER

Coworking spaces have drawn on and emulated the best aspects of urban hotel lobbies but with one crucial difference – they make their users pay for the privilege of accessing them.

The bottom rung of the membership ladder in most coworking spaces is 'lounge', 'sitting room' or 'hot desk' and in its most basic form provides a low-cost space to touch down in. Yet, the real value comes from something less tangible – community.

A recent study by the Harvard Business Review (HBR) into coworking found that more than 80 percent of respondents socialise out of work hours with other members and feel less lonely by using coworking space. The wellbeing benefit to employees of increased social interaction leads

to higher productivity, worker satisfaction and lower stress levels.

If the social bonds provided by coworking are at the core of its success, you would be forgiven for asking "why give up on a traditional office monoculture?", but a survey by HBR in 2015 would indicate that the concept of 'working alone, together' is as important for the 'alone' as it is for the 'together'.

Members of coworking spaces reported feeling less pressure to assume a 'work persona' as they were unlikely to be in direct competition with other members, they didn't have to deal with the internal politics and could always rely on uninterrupted solitude for focused working when needed.

So, a coworking space's community would seem to rely on striking a balance between the anonymity of the urban hotel lobby and the potential overfamiliarity of the corporate HQ. But the profusion of new coworking spaces is driving operators to think more specifically about the profile of guests they seek to attract, and to craft their brands accordingly.



Soho Works, which is into its third year in London's Shoreditch, can draw on the wildly successful hospitality brand that is Soho House, and they have made the lateral move into workspace seem effortless. The interior is reassuringly familiar for anyone who knows and appreciates the 'house' style and you have only to look at the facilities and events programme to know you're in the right place. The space boasts a workshop, photographic studio and 3D printing facilities, while the events programme covers subjects such as 'brand building', 'questioning the brief' and maker sessions.

But if the members are the 'glue' for a successful community, it becomes imperative not only to attract the right people but to curate the mix. It isn't always as simple as picking a professional sphere.

As Nelli Poulou-Jensen, Membership Manager at Mortimer House says "we're not selecting from any particular professions, we're selecting for 'attitude', it's important for us to have members who play an active part". Such is the importance to Mortimer House that the community be given a chance to grow strong roots, that they ask prospective members to commit to a minimum of 12 months.

A HOTEL FOR WORK

Hotels have always catered for the corporate community with lounges, business centres and meeting rooms a staple in most hotels. However, they are often not the most inspiring spaces, relegated to basement or back areas. More recently, a new wave of hospitality firms are adapting and reinvigorating the form.

Cutting edge coworking concepts embody this change in attitude to the needs and desires of workers. Guy Iveska explains that they “have replaced bedrooms with beautiful private work studies and kept all the other essential amenities one can expect to see in a lifestyle hotel”. In his eyes, what they have created at Mortimer House is not just an office but a “hotel for work”.

On the other hand, Zoku, created in 2009 by CitizenM co-founder Hans Meyer and Marc Jongerius, has kept the bed but that’s where any resemblance with a normal hotel room ends. In a Zoku Loft the bed is tucked away behind a screen which transforms the space into a studio with a work table at its heart, making it somewhere you could comfortably invite a guest without the bed as an awkward centrepiece. What’s particularly impressive is all this functionality is achieved in a compact 24m².

Aimed at the global nomadic worker, Zoku is the outcome of extensive first-hand research. “Due to the internet it became possible to live and work independently from time and place” says Hans Meyer. They also observed the increasing tendency to mix business and pleasure when travelling, but the hospitality industry was focused on “putting a head in a bed” and not space conducive to work. His research formed the bases for the product Zoku has today, which as Meyer puts it, is “a hybrid between a home and an office, topped with hotel services”.

MAKING THE NUMBERS WORK

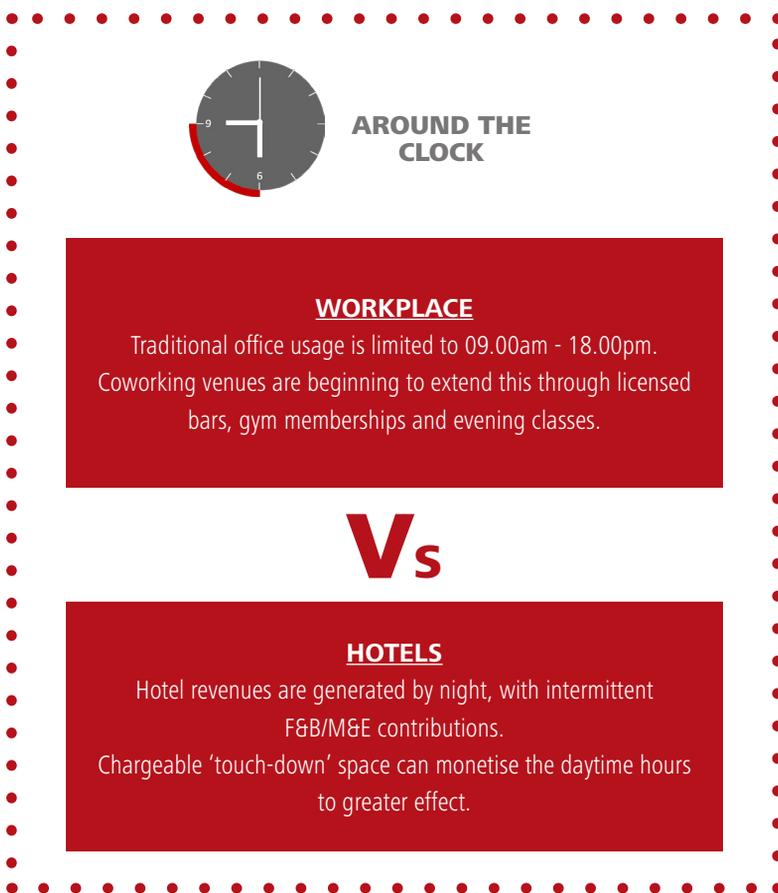
Commercial real estate development is a complex business, but in its simplest form is about extracting as much revenue per m² from the space as possible, relative to the initial capital outlay. Urban hotels are designed in increasingly efficient ways (contracting room sizes, efficiencies in circulation and back-of-house, etc.), and in some instances successfully generate revenues from ground-floor food & beverage concepts. However, opportunities exist for hotels to look beyond their traditional offering, towards potentially higher-yielding uses of space.

Whilst urban ‘lifestyle’ hotels thrive from the ambience created by a buzzy lobby bar, they often fail to capitalise on the captive market from a revenue perspective. Low spend per visitor, and low seat turnover creates a management headache. This can be mitigated somewhat by limiting WIFI duration or monitoring the movements of regular users. However, in order to monetise this crowd of loyal walk-in visitors, some operators are looking at the opportunity to charge for this ‘touch-down’ space. Hans Meyer of Zoku points out “a coworking office makes its revenue from 9 o’clock in the morning until 6 o’clock in the evening, and we already have those spaces as part of our hotel operation”. If hotels can utilise the spaces that they have over more hours each day, there are significant gains to be made through memberships and food & beverage usage, whilst also generating the buzz and atmosphere that attracts guests.

Whilst predominantly a residential product, the Collective in West London includes coworking space as part of their suite of amenities for members, but usage is low during the day, when most residents are off-site. By opening these facilities to the surrounding community, they have brought activity and animation to these spaces, whilst also opening a new revenue stream.

Rob Sykes of WATG explains that “from the perspective of the developer/operator, the economics of coworking spaces are compelling. Firstly, premium rates can be commanded from tenants who value the convenience of short-term, flexible contracts. And secondly, by carefully assessing usage patterns and devising a balanced mix of membership types, it is possible to achieve occupancy levels of 150 percent or more. The potential for secondary revenues should not be forgotten either.” Soho Works, for example, has an interesting range of chargeable evening seminars and classes, as well as a popular coffee/snack bar.

As Mat Oakley of Savills says, “the flexibility that coworking offers comes at a price. Some operators are able to derive revenues significantly above office space on a traditional lease. But for young businesses in particular, the ability to choose whether to occupy the space on a month-by-month basis, plus the additional community and culture many coworking models offer, is an increasingly attractive reason for paying these higher costs”.

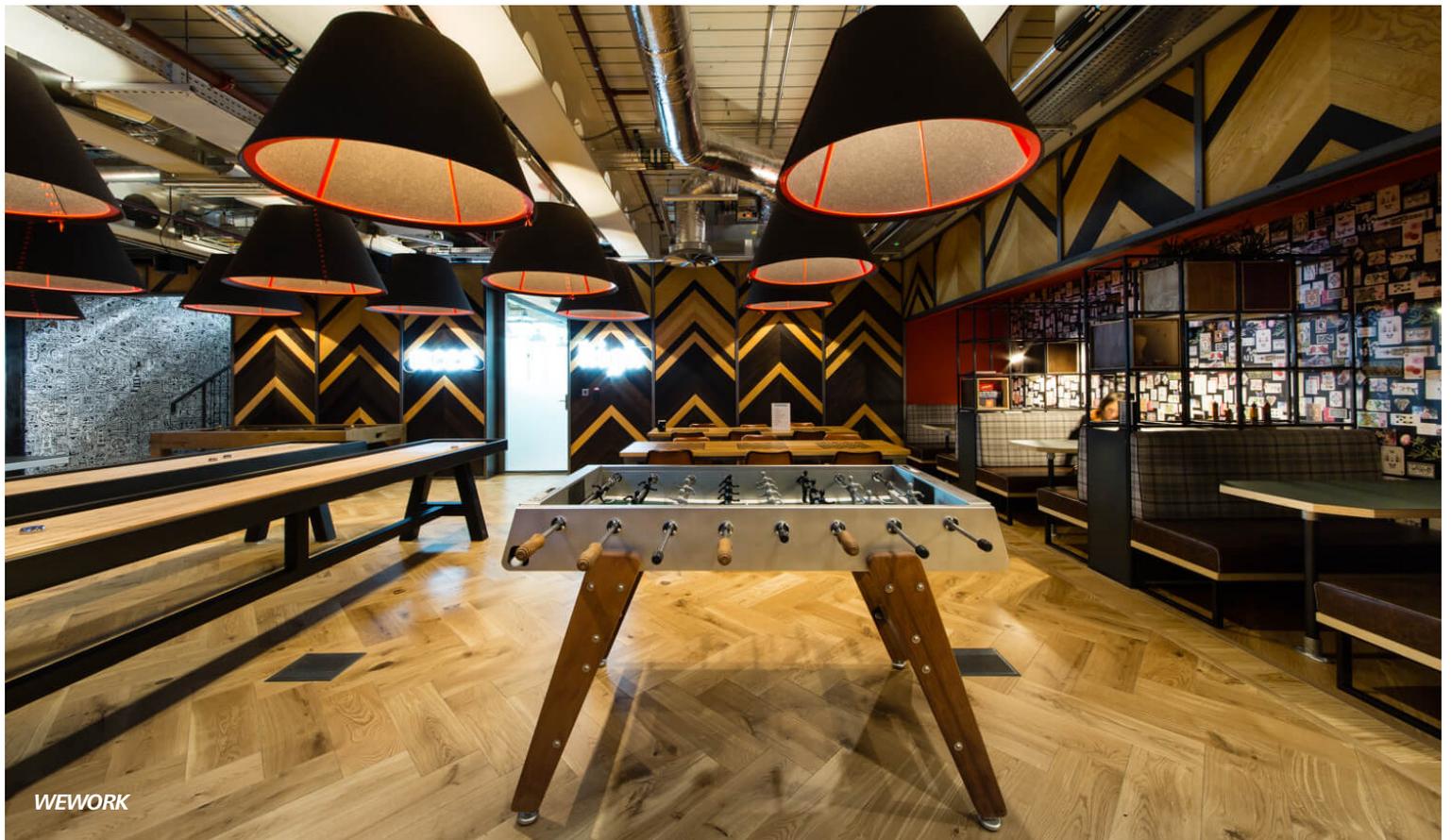


The rapid expansion of WeWork has allowed the group to benefit from economies of scale with regards to the physical fit-out and operational costs. Indeed, Adam Neumann, Co-founder of WeWork claims that from the perspective of the tenant, they are able to “cut your operational costs between 20 and 50 percent.” This is due, in part, to the centralisation of certain services.

CONCLUSION

We are excited to see the role that hospitality increasingly plays across other real estate asset classes. There is a constant need for evolution and innovation in the world of development, and this continues to be driven by hospitality, as well as technology. From the perspective of the developer, more creative office concepts offer intriguing propositions. Coworking, in particular, offers potential for an efficient business model, and heightened returns on investment.

From a design perspective, the opportunity to deconstruct traditional office space and hotel public areas, and create environments that work for the developer, operator and end-user is ripe. The way that we work, travel and play is changing. WATG is passionate to be at the forefront of this.



With Thanks



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WORKS



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WATG STRATEGY

BESPOKE ANALYSIS AND INSIGHTS

While WATG is world-renowned for our design services, we are also committed to being a full-service hospitality real estate advisor to our clients. We recognise that a project's success is measured not only by how it looks, but by how it performs. Development is a complex undertaking that extends well beyond site planning, design and entitlement. Mixed-use, hospitality and leisure projects have multiple stakeholders that include developers, equity and capital partners, management companies and hospitality brands.

Our strategy services are often the "glue" in the delivery of multifaceted projects, through visioning and competitive positioning that are grounded in economic realities. A collaborative development strategy will unlock opportunities that meet social, financial, demographic, land use and environmental goals. What distinguishes us from the other consulting firms is our collaborative approach with our design team; we work in conjunction with the planners and architects to identify solutions and maximise the potential for our clients. This consulting expertise is unique within design firms, and allows us at a very early stage to effectively position the asset, resulting in the optimum opportunity for economic success.

Successful ownership begins with appreciating that hospitality and entertainment development is fundamentally different from most other forms of real estate. While most commercial real estate assets involve only the land and improvements built on the land (collectively, the "real property"), a hotel or theme park, for example, typically involves both the real property and an ongoing business enterprise (as opposed to a lease structure). Consequently, the owner must understand the operational issues relating to the business enterprise, because they will impact the real estate value.

As active participants in such international organizations and programmes as The Urban Land Institute, Cornell's Center for Hospitality Research, the Hotel of Tomorrow initiative – and as proprietary sponsors of research on affluent travellers, WATG is in a unique position to share insights that will help position your development for success in an increasingly crowded and competitive marketplace. We're not just looking at current guest preferences but also how they might change in the future.

WATG will actively participate and facilitate the strategic planning and visioning of a development, including:

- Benchmarking the project with competitive and comparable developments
- Market trend analysis through primary research
- Programming, including amenities, massing and layout of the mixed-use development in collaboration with the design team, based on the supply and demand characteristics of the competitive market
- Identify potential hotel companies that may be appropriate for the development, based on the geography, market demand and brand recognition
- Assessment of market demand to identify source markets, consumer preferences and to position the project relative to local, regional, state and international trends
- Develop a financial model that would yield a proforma and a return on investment analysis
- Identify, recommend and facilitate introductions to prospective development partners, operating companies, public relations and branding firms, project managers and / or legal counsel at the appropriate time and integrate them into the process



FEASIBILITY
ANALYSIS



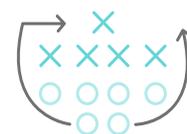
MARKET
SEGMENTS



ECONOMIC
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