



Hong Kong | November 2020

Research

Tenancy reimaged

Could memberships be the future of leasing?

Do rapidly evolving trends in occupancy and technology signal fundamental changes in the way real estate is leased and occupied?

Executive summary

Offices are here to stay. The workforce will continue to be the primary users of premises. Their needs are at the top of the agenda for both their employers and those who create real estate. Here are some of the questions commercial real estate leaders need to be asking:



Why do owners and occupiers find the traditional office leasing model increasingly out of sync with their needs?



How will commercial real estate leaders deal with the transformation of work – and employees who instead of just a job want a productivity-oriented experience with wellness and lifestyle benefits?



Is the entrenched relationship defined by rent per square foot fast outliving its usefulness?



Will the technologies that enable shared and flexible offices facilitate new ways to manage and charge for space?

The way forward may well be the membership ecosystem. This approach has more in common with airline frequent flyer programs than traditional leasing. The principles of flex space and shared facilities are taken to their logical extremes and tenants are charged monthly fees for various tier levels of access and benefits for their employees. The membership ecosystem breaks down the rigid siloes between working, dining and relaxing and creates a feature-rich workplace ecosystem.



Is the outcome a win-win for owners and occupiers?

Landlords



Leverage technology and extrapolate current trends & lead real estate solutions into the future



Add tangible cash-flow and capital value, while users go top of agenda



Augment CSR goals: drive efficiency, productivity, sustainability and wellness

Tenants



A new, more efficient and productive way to access space



Higher quality employee environments at potentially lower costs



A new level of dynamism in the working environment

Who will be first to make a clean break from the legacy leasing model?

Will the whole industry move to membership, or is there another way forward?

Imagine if your tenants paid membership fees instead of rent. Don't measure the square footage of the offices occupied and multiply that by the unit cost.

Instead, a monthly fee is charged for each employee, based on the workplace experience delivered. Workspaces, meeting rooms and other facilities are provided within their premises, but they also benefit from flexible and shared spaces, as well as amenities that promote wellness, collaboration, productivity, and efficiency.



Introduction

There's no doubt that tenants of tomorrow will pay in different ways. There are many pressures on the traditional office leasing model. Occupiers are increasingly looking for flexible space for their hub-and-spoke business operations. Talent is attracted to multi-use spaces that enhance lifestyle. Health concerns now mandate social distancing. Innovative ways to build company culture and embrace remote workers are needed. Sustainability is creating new expectations for what a workplace is and how it functions. Shareholder demands for greater financial efficiency are putting pressure on rentals. These factors and more are inexorably driving change.

Owners and occupiers are already exploring new partnerships to meet the evolving needs of both. What's next, and where will this cycle of change end up? The answer is not yet clear. However, it's likely we'll see a hybrid of traditional and revolutionary practices. Here at JLL, we're intrigued by the idea that the already well-established flex space and co-working trends will accelerate and be enabled by technology to deliver membership-based office ecosystems.



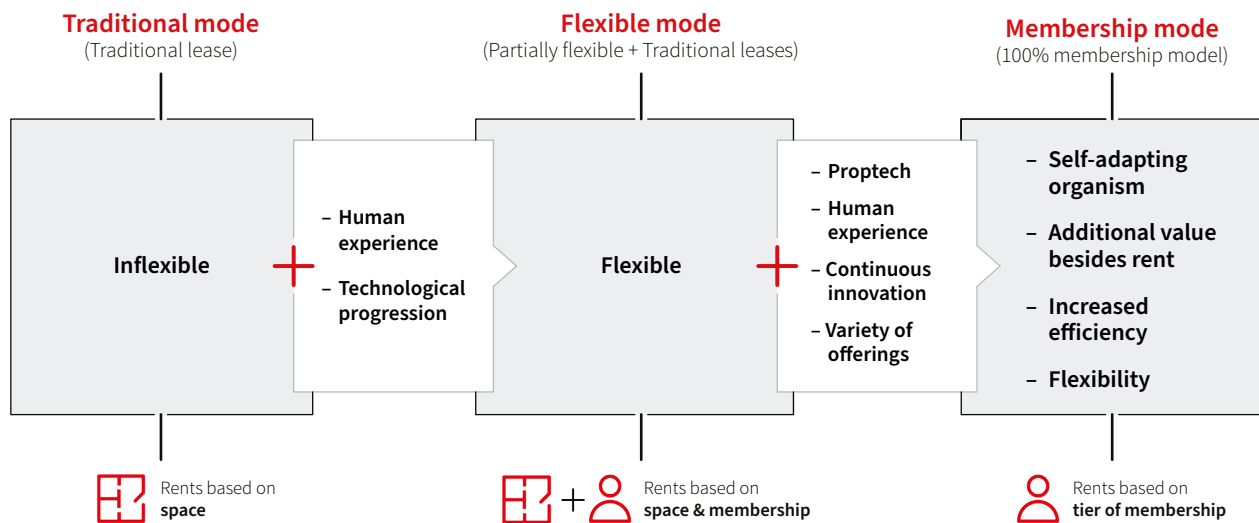
Pre-COVID 19, the world of work had already evolved. For over a decade, co-working and the use of flex space increased in China's major office markets and around the world. Occupiers need to meet the aspirations of a new generation of workforce, and optimize the use of space at the same time that operating metrics are shifting.

As a result, rent-based offices that rigidly separate work, dining, exercise, and relaxation are outmoded. A holistic lifestyle approach to commercial real estate is creating a new multi-use landscape and membership is likely to be part of the equation.

Is the membership ecosystem a better way?

A membership ecosystem helps achieve alignment between owner-operators and occupiers. With the technology that enables co-working operations, can landlords deliver a better workplace experience for tenants and expand the variety of offerings available in their projects, while leveraging what is available in their immediate proximity?

Figure 1. The transition to a membership model



Proptech is the catalyst for change

The economics behind the membership ecosystem are powered by data. Desk sensors determine how often a space is occupied. CO2 readings indicate the number of people in a room. Calendar-based booking tools document space usage. Access to space can be granted through the use of NFC (near field communications) readers and smartphone apps. This technology and data are reshaping effective allocation of space and how to charge for it.

A logical extrapolation of current trends, the membership ecosystem could meet the needs of corporates and entrepreneurs alike for efficient, flexible and adaptable work environments. Millennial employees get modern, amenity-rich workspaces, with access to fitness, dining, social spaces and more. They share traditional business facilities and services such as meeting

rooms, reception spaces, printers, and IT support. The social interaction and flexibility of these environments spurs continuous innovation and suits companies in emerging sectors as well as legacy businesses transforming.

“Competition for talent is perhaps equally fierce as competition for business. Today’s employment offering must go far beyond a job and a desk.”

A greater variety of service offerings

Traditionally, owners of offices had to choose just one positioning, whereas the membership ecosystem enables landlords to meet the needs of various types of businesses and individuals. Memberships can be sold to individuals and employees on a tiered basis.

Real estate as a holistic organism

The membership ecosystem breaks down the silos between the various component parts of the assets by combining them into an overall tenant experience. Owners will increasingly consider themselves as operators of optimized facilities for users, delivering wellbeing, utility and productivity. Assets that were previously leased, managed or used independently of one another are now increasingly drawn together into a holistically operated environment within the building envelope, enabled by technology. To an extent, this can include useful amenities or facilities nearby outside of the direct control of the asset or portfolio owner.



22 Bishopsgate

No building has yet 100% embraced flex membership, but some projects inhabit a transitional space between the old and new models. London's 22 Bishopsgate, for example, operates as a traditional high-end community in many ways, incorporating membership benefits. About 100,000 square feet of facilities improve the everyday experience of the community users and the public, such as access to four levels of shared meeting rooms (operated through a management agreement with a company called Convene), a 25th-floor gym, a 41st-floor yoga and meditation studio, a 57th-floor nightclub and a 60th-floor sky bar.

Figure 2. User company only space v.s. owner provided common spaces

User company only space – shell or turnkey options

Elite
(senior leadership)      

Management
(management)     







Team
(general employees)    

Corporate meeting space
(x headcount corporate meeting space)

Owner provided common spaces

Collaboration
(x headcount meeting space in a general collaboration area / co-working facility)

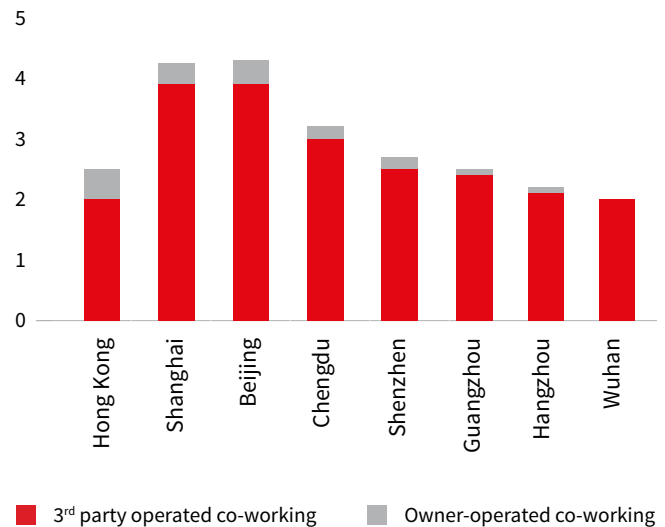
Co-working
(x headcount for more mobile employees)

Legend      
Desk Car park Gym Yoga Club Premium coffee

Could Chinese cities lead the way?

The considerable amount of new builds in Chinese cities is putting pressure on landlords. To stand out, the winners must innovate new ways to present their assets to the users. At the time of writing, vacant Grade A office space is a staggering 7.8 million square meters in China's tier one cities, and 13 million square meters is slated for completion in 2021-2023. Shrewd landlords must have the ability to differentiate the asset, the readiness to offer to users a truly desirable work environment and amenities, and the willingness to negotiate leasing formats imaginatively. The working style of new economy companies and the vast array of auxiliary services that form business ecosystems is driving new, unconventional ways to use office space. The ingredients are already here; is the next step to change the financial model?

Figure 3. Flexible space penetration rates of Grade A office in key Greater China markets (%)*



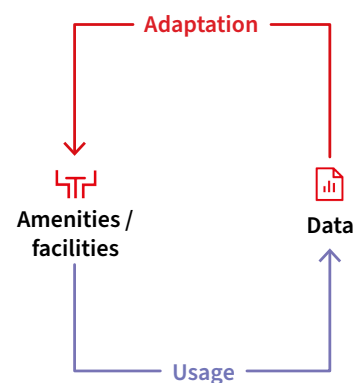
Source: JLL

*As of October 2020.

Rethinking space and time

The membership ecosystem's adaptive mechanisms allow for the use of space to adjust rapidly. Big data from occupancy sensors enables landlords to, for example, determine that the yoga studio is underutilized and should be re-fitted out as gym space, which is in higher demand. The revamped experience is better tailored for the members and potentially allows the landlord to command higher fees over time. Similarly-informed decisions can be made about desk size and placement, meeting room fit out, and other resource allocations. This process cycles continuously as the needs of the occupants change.

Figure 4. The constantly-evolving membership ecosystem

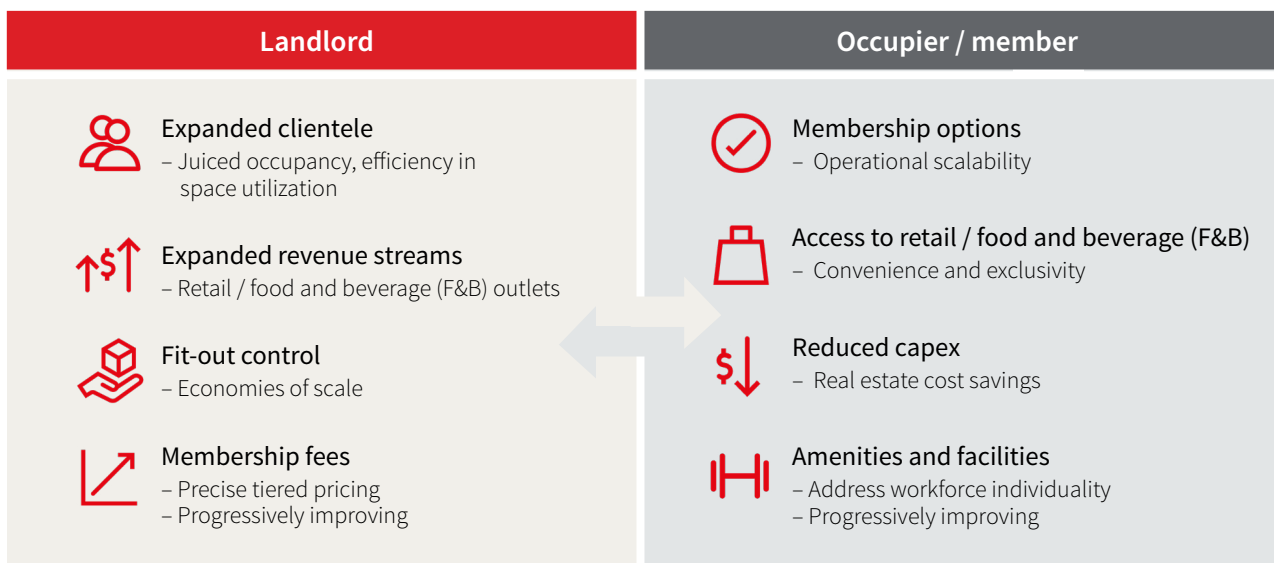


“The building operates as a self-correcting ecosystem, a vertical village with a constantly-evolving economy.”

Owner-occupier win-win scenarios

With a membership ecosystem, the interests of owners and occupiers are aligned. Owners can make more efficient use of their assets and drive more income, while providing a higher quality environment to occupiers at potentially lower cost. The user space provided/required can change flexibly without compromising the financial position of either party – in fact there can be potential enhancement.

Figure 5. Alignment of landlord and occupier interests



Exploring the next steps

The membership flex ecosystem would profoundly change the way real estate is evaluated and managed. Asset valuation, investment underwriting and financing, and property and facilities management will all need to evolve to accommodate such an innovation.

Conclusion

Is membership the only holistic way to manage commercial real estate? Probably not, but the concepts of membership-based tenancy agreements, mixed use of space across the asset, flexible use of space, and the value of the employee experience are all strong drivers of change. Evolving occupier needs and the market response of owner-operators will continue to shape the future of commercial real estate. Exploring new partnerships with the interests of landlords and tenants aligned will most certainly give rise to alternatives to traditional leasing. This process will most likely be an ongoing evolution, rather than a transformation to a specific model.



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