Transcript

Will Burchfield:

Will Burchfield with Colliers here. I have my good friend Mike King from we work on the podcast today. Thanks for being on the podcast today, Mike. We're excited to have you.

Mike King:

Thank you very much for having me. I am very excited for the conversation today.

Will Burchfield:

What exactly is your role at WeWork and your history and background in the business today?

Mike King: My role today is around business development. So, trying to identify the businesses that we really want to be engaging with that have the right characteristics that we think would make them great clients of ours. As well as working with influential groups that we think we can work with to just scale out the relationships that we think will make the most sense for WeWork. So that might be brokers in a lot of instances, but it's also PE (Private Equity) groups and VC (Venture Capital) groups as well that we think we can really help at a greater scale than we are today. That's my job today in business development. But I started at WeWork about four years ago in our account and sales team or enterprise sales team. Then my role evolved a little bit over the years since then.

So, I think the opportunity is always there and I think the people that joined the business at any point in time all believe that there was a long-term opportunity for WeWork and other flexible providers in the market and that's never really changed. I think that there was a period where we were trying to do a lot as a business. We're very ambitious. We had a lot of money to fuel that growth and we took that on. It was very exciting at the time to work there.

You know occupiers taking on more space or renewing, or things like that, so we were in a very similar environment. So, we like to think that we are, if anything, have become more and more embedded in the real estate industry than we once were.

Will Burchfield:

Talk about hybrid work today and you know a new normal and all these fancy buzzwords. How is WeWork itself sort of viewed your work policies and how your employee base at WeWork is conducting their day-to-day. You know, you're a new dad. You've got a young guy at home; you live in New York and in apartment. What is that like? How are you managing that? Or you going in the office at all? Or are you sort of staying at home? Are you popping in and out of other WeWork locations? Have you found a good balance? What's that been like?

Mike King:

I think that we are really similar to the brokerage community and a landlord community. I know that Brookfield is an example of how their office had their employees back for a long time and a lot of the brokerages have had their employees back in the office plan for a long period of time, and we've been similar.

I think like a lot of people out there. Certainly not everyone. I love being in the office for the majority of the week. I think my productivity is certainly improved, but more than anything, I just like seeing my friends in the office. I think you know, having a bit of banter in the office with some of your colleagues, one is just more enjoyable, but two, it's where you really learn what's happening in the business. We're in an industry at a period in time where things are changing so unbelievably quickly, that it's important to be able to gather as much information as you possibly can, and I find it impossible to do from my apartment. This is partly due to my own productivity and partly due to my son who certainly likes to make a racket at home.

Will Burchfield:

I have a 6-month-old at home too, so I understand the perils of trying to get things done when they're screaming babies in the background and dogs barking and fighting for Wi-Fi. You are not alone in that regard, my friend.

Mike King:

I know it's funny. I guess the benefit of being a WeWork employee in a city like New York, particularly when you're on the leasing side of things. When you're running tours and things like that, you really do have a touchdown spot anywhere at any point in time, regardless of where you're going. So, if you go into a client meeting or going to an asset, you can really map out your day around that and go to a WeWork nearby to utilize the space to just save travel time. No more stopping down in Starbucks or anything like that. So, I think that's certainly useful asset for us WeWork employees in the city.

Will Burchfield:

How do you think the enterprise demand has kind of changed pre-pandemic to today? How long do you think this appetite for flex space from these larger occupiers in high growth companies will last?

Mike King:

So, the first part of the question how is it changed?

I think there's a few things. I wish that there was a really concise answer, but every business is really unique. Their challenges are unique and the way that they view their solutions to their unique challenges is very different, but I think that there are some commonality's. I think the first line is just having the need for real estate. If you're a high growth company that's been growing a lot over the last two years and you were successful in reducing your space early in the pandemic, there is just a need for real estate space. Just a fundamental need.

So that's certainly different. That's certainly unique. There are a number of businesses that have raised, astronomical amounts of money could and have done a huge amount of hiring but have never had an office. Or they did have an office and they got rid of it, so that need for space is there now. I guess the things that are slightly different is people’s view about what is conservative. I think historically when people thought about a conservative real estate transaction, they thought about a long-term lease as the most conservative thing. I think that's flipped. I think conservative now is having the ability to control your term length so you can start small and renew. It’s having the ability to expand or contract or the ability to potentially pivot where your office might be located. Potentially pivot how the offices use what the design might be. So that's where flexibility comes in and where WeWork and our peers really can come in and position ourselves differently.

So, the things that businesses are doing at that are doing a bit of testing. Doing a bit of trial and error, seeing what works and what doesn't, and then using all the learnings in this period before they might make a longer-term vision or future point in time.

I think the third thing is speed. If you hired a lot of people or you've had a lot of people working remote and your business revolves around either, sourcing new clients or product development or sales or anything like that. The competition for your business to evolve and grow and develop products, speed is just so essential and so we're seeing a lot of clients come to us for speed. They’re saying, based on the market dynamics and the restrictions and COVID-19 challenges and things like that, they want an office that they can setup and running with employees in the office working as quickly as they possibly can.

Will Burchfield:

Do you have enough inventory to fill that need right now in your major markets when it comes to speed? Because I have to presume and correct me if I'm wrong, that there's probably, certain markets like in New York or Miami, or a high growth market like in Austin or something like that. Where probably your most desirable locations are probably pretty full, correct?

Mike King:

Yeah, I think that's fair to say. It's probably similar to other landlords as well, I would assume.

Will Burchfield:

I mean there's clearly a pipeline of space that you have, and continued expansion is clearly part of that ammo as WeWork is moving into its future plans. I think this speed and efficiency with which large enterprises can get up and running and test and iterate. I think your point is spot on and it's something that we at Colliers speak about almost daily with our flex clients. It is clearly the only way to test and iterate and make meaningful decisions. Sometimes it has to happen in a very short window and if you don't have a space with which to pivot and change and to test and trial, things are going to fall to the wayside. I think that's an interesting tidbit that flex operators were able to sort of play with.

Mike King:

I think that the most interesting thing I've found certainly this year that is only going one way as far as I see, is that the decisions are not being made around free rent and TI and start date and those types of things. It is all about talent. It's about where do you source the best talent? How do you retain the talent that you have today? How do you engage that talent? How do you make that talent productive? How do you use space in real estate as a way to do that? And that's the thing that's really unique to this year.

Will Burchfield:

That is music to my colleague Bret Swango's ears, who runs our data and labour analytics practice here in the US. He and I have been working hand in hand over the past few months preaching that exact sentiment. I think sometimes it takes a second for it to land. But the idea around talent and providing them ultimately their best environment in order to do their best work, is clearly something that has now taken more of a front than it has over the past 5-10 years. So that sentiment is heard loud and clear from the internal community here at Colliers, and I'm sure other local brokered shops as well.

Mike King:

I appreciate it's also challenging. In some ways things are more challenging, but in some ways, I think that they're easier as well. I think there is an appreciation that every employee wants something that's slightly different, that in some ways is challenging. But on the plus side is there are more solutions available today than there were 5-10 years ago to solve for that.

Will Burchfield:

That's an interesting point, and it sort of lends itself to the current hot topic that we again here at Colliers are circling the wagons on almost daily with our large occupiers and smaller occupiers. But this notion of a third workplace or an on-demand type service, where you can drop in and you can give passes to certain employees who are doing certain types of work in certain geographies. They can drop into an on-demand network of space as they see fit that they think will benefit them the most in the long run given work, productivity, environment, etc. Whatever it may be, a reduction in commute time. However, you want to view it. This notion of on-demand space and the data and the utilization metrics that companies like WeWork are able to provide. I think this is a huge avenue that is still in its infancy, and I've just read a ton lately and seen a lot of press releases, not only from WeWork but from some of your peers around. You saw Slack just recently announced that they've adopted an all-access pass for their employees in New York City and productivity went through the roof, etc. I'm curious to hear your take on these large enterprises desire for this type of solution and maybe where you see this iterating in the future and what its traditional use case is.

Mike King:

We're referring to it as the digitization of real estate. So, you have access to real estate, but it's not necessarily something that you have a fixed square footage office for. Employees have the ability to access a number of different offices around a city or a country or the world, or what have you.

I think it is definitely in its infancy. It's new, so in so many ways it's challenging to kind of conceptualize. If you're at a business that wants to implement this, whose decision, is it? Is it the head of real estate? Is the CFO? Is it HR? Is it treated as an employee benefit, like a gym membership or is it treated as a real estate decision? I think that's something that businesses are really trying to wrap their head around. I think as we touched on earlier real estate decision making processes and talent decision making processes I think are merging or they're working much more closely together. So, we're seeing businesses adopt this. I think it's about a 20% month on month increase of the sales that they're doing. But I think it's genuinely in its infancy and I think it's for multiple reasons. The first is it's an amazing use case for trial and error. You can test a huge number of employees very quickly. Who's going to the space? Who likes it? What are they like? Where are they going? What's their transit time? How much are they using it? What's their productivity, based on their usage? There's just an amazing ability to be able to gather that information very quickly and very economically, which hasn't really been available before.

And the second is that it can convert into office space simply as well. Whatever data that you gather from your employees, you can then implement. And you can say you know what based on the information that we received the last three, six, nine, twelve months, we can make a really informed real estate decision off the back of that, both where the office is located and how much space is needed? Who's gonna be going in there and how frequently those employees are going to be going in there, and what did they want within the space?

So that ability to learn on the fly using credible information, you know from where we stand that just hasn't been available before. If you were going to go and design a new headquarters for 1000 employees or 300 employees, what have you. You have to do that within a long-term lease which is quite restrictive.

I think it's got a huge amount of growth to go. I think the interesting thing which is going to constantly evolve is where businesses land on the spectrum of 100% of the employees in the office, versus 100% of employees remote. Where do they land on that spectrum, but the ability to move in one way or another is enabled by this product, like all access or the digital station of real estate has been calling.

Will Burchfield:

I think I've heard that digitization term, circling around the WeWork circles for a little while, and I think that's incredibly spot on. I think the future of our flexible workspace industry will probably be at the forefront of understanding data and information and using such data and information to be more strategic with more long-term decisions.

And on demand is just one suite of the WeWork product spectrum. Are your enterprise clients coming to you and your team for certain specific requests that you're seeing more often than not? Is it, "Hey I need a large floor in downtown LA for two years to house a certain team"? Or is it, "I actually need an actual headquarter space. We have let our lease run out during COVID-19 and we need to find a new home. We're not quite sure what the future looks like yet"? Are you seeing anything that's the very similar day to day with your enterprise clients and what they're asking for? Or are you selling the whole suite of products across the platform right now?

Mike King:

I think the things that are similar are we're still doing a large number of large scale and short term, flexible transactions. We're talking 20,000 square feet, 50,000 square feet, 7,500 square feet. The volume of those transactions has picked up astronomically. I was absolutely blown away in Q2, by just the sheer volume of those types of transactions that we were doing it all over the world. And it wasn't one industry or city that was really transacting in that way. It was hyper growth startups. It was fashion. It was fintech. It was everything you can really imagine. That has just accelerated. I think historically a lot of companies weren't aware that we could do transactions of that scale. They've thought that once you got to 10,000 or 15,000 or 20,000 or 30,000 square feet, that you had to sign a direct lease and that's just not the case. That has only accelerated it. What's slightly different this year is that we're seeing businesses do multi-market cities at once. They'll say we have a strategy for the US and the US will have in east coast hub, west coast hub. We actually want to design and build and sign an agreement over two of those locations at once. One in New York, one in the Bay Area. That was not something that we'd see historically. Most businesses would negotiate one city at one time based on a lease expiration or something like that. I think businesses that have grown a lot or have a large workforce that haven't been in an office and making national decisions at once. They want to grow in five markets or two markets or what have you. They want to set these hubs at once they want to release the real estate strategy with all of the employees at once.

The third thing you mentioned, which is the ability to have all access or the employees having access to any WeWork which is certainly accelerating. And then the last thing is the combination of the two, which is let's have a dedicated office that can fit 50 employees at once, but that's let's make that available to 150 employees.

So that at any point in time we're only gonna have 50 employees in there, but we want to make that dedicated office available to a large number of people. That office that they do take is not designed for heads down work. It is designed purely for collaborative work and client engagements, executive briefing centers and those types of things.

Will Burchfield:

I mean talk about a quick way to save some money, right? That's an initial square foot consumption that's probably one third of what their traditional real estate spend would look like right off the bat. That has to be a home run for most eyes on those types of transactions internally.

Mike King:

I think the home run comes in the fact that if it doesn't work, they can pivot. If it's too much space, they can reduce it. If it's not enough, they can grow it. If the cities that they chose were not right and the locations weren't right, they can move. The last thing that we've really tried to evolve over the last little while is the ability that we call portability. The ability to be able to transfer outstanding obligations from one asset to another mid contract because we recognize it is something that businesses are going to need. No one is going to be able to and you can't expect business to make 100% accurate decisions that's going to last for three years today. Any decision will have nuances that will need to be corrected and we want to allow businesses to be able to do that, so that's something that we are allowing companies to do.

Will Burchfield:

Clearly a landlord doesn't have that luxury. If you're stuck in a sublease, you don't quite have that luxury either. I think with the ebbs and flows of the world right now, ultimately, flexibility tends to fall into almost every bucket that every sort of real estate executive has their eyes on. Be it spend. Be it usage. Be It data. Whatever it may be. The flexibility around providing solutions is clearly the way of the future, and I think we at Colliers are incredibly bullish on the future of the flexible workspace. Not only as an ad hoc solution, but as a strategic real estate movement. And we think that the solution around flex can solve many different needs.

And I'm curious where do you see flex in 2-3 years? Our world is convoluted. It can be complex. It can be hard to digest. It's clearly ever changing and used differently. But where do you think this spectrum goes? Where do we go from here?

Mike King:

I think that there's a few stats that I think will help indicate where we think the industry is going. In Q2 alone these are just the figures I have. WeWork did about 37% of all leasing transactions in London with about 1% market share in Q2. In New York it was about 24% of all lease and transactions with 1% market share. In Miami it was about 21% of all leasing transactions and about 1% market share. That's just WeWork alone.

Obviously, we can see that the demand side of things is really searching for a more flexible provider. I think a few things are going to happen. I think there's going to be the likes of WeWork, and others are probably going to grow. They're probably gonna be able to grow in ways that they may not have been able to before with the likes of management agreements and those types of things. I think that the amount of space that will be managed by flexible providers will continue to grow because the demand is obviously there. I think the ways in which businesses are transacting is going to evolve. We talked about it years ago where businesses would potentially have 10%, 20%, 30% of their portfolio and flexible real estate. I think that's going to come to fruition. I think the easiest way to look at it is how much space was underutilized over the over the last two years in any client's portfolio. That number would have been drastically higher than 30% and the shift has changed where I think any C-Suite executive would. One be able to look at their costs of their real estate, and so the most expensive real estate is that space that is not being used at all, that's a change. And then combine that with the fact that we've got a workforce that is absolutely evolving. Their needs are evolving. And the way that we can try and test what the best solution is for those needs is utilizing real estate. I think the demand is going to only continue.

Will Burchfield:

We echo all the same sentiments, we're bullish on the sector. Clearly, given how busy everybody in this sector is and the support with which we are receiving from senior leadership across the board, we've invested heavily here at Colliers on the tech side of the business to support our flex needs and our flex strategy conversations.

Mike, we can't thank you enough. You are a very respected individual in the flex world, and we look forward to hearing and seeing so much of WeWork success. Thank you very much.

Mike King:

Will thank you so much and good luck to everyone finishing out the year. Wish yiu all the best.

Contact

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