Transcript

Jonathan Wright:

Absolutely delighted to be joined by Todd Liipfert, Senior Development Director from The Executive Centre (TEC), the largest premium flexible workspace operator in Asia. And today we'll be talking about with COVID-19 making international travel almost impossible, how an operator has kept their locations running on a regional basis, and also how they've been supporting their clients throughout what we've all been going through in the last 18 months or so.

Todd Liipfert:

Thank you for the invitation to join the podcast. I'm excited to be here and talk a bit about TEC as well as how we've been addressing the challenges of COVID regionally across APAC.

First, as an introduction, I've been working for TEC just about eight years ago. When I joined the company, we were at about 55 locations, and as of July 2021, we have 151 locations with about 37,000 members across 32 markets in 14 different countries around Asia Pacific. Our focus has always been to provide corporate premium-grade office and flexible workspace solutions to multinational clients across major markets in Asia. Our primary areas of focus are Greater China, India, Japan, Korea, Singapore, and Australia. Our key target really has been to serve the multinational corporation basis and to target premium or grade-A assets within major market CBD locations throughout that region.

Jonathan Wright:

Awesome. TEC has been going for, correct me if I'm wrong here, 20 or 25 plus years, obviously, as you said, in that premium end of the market. And I think what we really want to drill down on today is not just how you guys have navigated your own operations, but also how you've supported your members during this period, because obviously, running your own operations must be difficult. I'm sure some of the operators listening would be really interested to hear about that, but also how you supported your members as well. But before we dig into that, I guess the first question would be, the landlords that you work with, have you seen in the last, I guess two years with international travel being almost impossible, you're very well entrenched in a lot of these markets already that you're already in. Have you seen more landlords turn to TC versus new market entrance where they've been looking to add flex into their portfolios?

Todd Liipfert:

Absolutely. I mean, I think the easiest way to summarize it is that we've clearly seen that track record matters and having an existing history of operating in a particular city really allows us to speak and engage with landlords in a slightly different manner than others who might be looking to enter the market. Which brings some covenant and proven history of operations are now even more important for any landlord conversation. COVID is by no means our first economic downturn. You know, we've been operating since 1994, so we've been through a number of economic challenging periods, but we continue to maintain healthy and growing occupancy, resilient pricing and satisfied customers, right?

So, the most important thing in terms of discussions with a landlord is really to ensure that we're able to deliver centers that are able to earn the revenue in order to make sure that we're meeting our rental payments, reaching our profitability targets as well as just being able to deliver on the covenant that the landlord gives us when we sign the lease. So that's what made TCs expansion discipline always really being firmly focused on a client-first-approach, making sure that when we're adding capacity, we're quite confident that we'll be able to fill it quickly rather than just seeking supply for the edition of "build it and they will come."

Jonathan Wright:

Why don't you just tell us a little bit about how you guys have kept the ship moving, so to speak. You're based in Hong Kong, most of your central team are based in Hong Kong, but you've mentioned your coverage earlier, 150 some locations spread around, primarily spread around Asia-Pac. How have you kept that moving forward, and still maintained quality of service when every different city is in some different stage of lockdown or some different stage of restrictions? How have you kept that moving?

Todd Liipfert:

Sure. I mean, I think at TEC, we're lucky to have quite a strong team, both here at our corporate head office here in Hong Kong, but also especially in the regions. We really do have a strong regional management team, both from our regional directors, who oversee a handful of cities on their own, as well as each of our individual City and Center Managers who really are empowered to really be in charge of the operations and sales and day-to-day activities within those markets.

I think every single one of our markets has gone through different cycles at different times of when lockdown challenges or government restrictions or even COVID outbreak events really presenting themselves as more serious threats in the business. However, really the most important thing is to really communicate as much as you can. So, my role sitting across multiple regions is to be able to say, "In this market, let's say in Australia during one of the lockdowns during 2020, this is really the way that we approached it" and sharing the strategies that we used.

I think the most important thing about TEC is that while, we aim to provide a consistent level of product, service, and quality across each of our markets, we also do ensure that our managers are really familiar and native to the markets that they're coming from, because the way that you have to handle situations like this has to be very localized. You have to be responding to the conditions on the ground. So having a blanket approach develop that of the corporate office in Hong Kong just wouldn't work for all 32 of our cities, but rather having a means of information sharing as well as empowerment to acting on the local level, in the best service of both the landlords and the clients is really good, and what we've found to be most successful.

Jonathan Wright:

This next question I'm about to ask, I've got two views on it.

In terms of what the operator landscape is going to look like post-COVID. On the one hand, I feel like there's going to be some consolidation because some operators just may or may not make it through. And also, we were talking before we came on air that we might look at certain markets that are really difficult to find, to gain footprint now, and that may lead to some M&A. But also to a certain extent, the markets may become more fragmented rather than consolidated because the lack of travel being available, that we are starting to see both landlords and occupiers look to people who are established in certain markets and can provide best- in-class in that market or best-in-class in a certain level of product, whether that could be a lower end of the market, middle end of the market, or where you guys play, in the premium end.

So, I think I'm kind of in two minds about whether the operator landscape is paused, going to be more fragmented, or consolidated. I wondered if you had a view.

Todd Liipfert:

I think overall, the strong will survive, right? So, people who are performing well, who are able to attract correct demand, maintain occupancy at the right pricing, relative to their base rents will do well, right? I think particularly from 2016 to 2019 in Asia, and a lot of our markets, we had a number of new entrances to the market or people who were heavily reliant on deploying funding, rather than operating self-sustaining profitable businesses where their expansion has kind of grown by funds that they're generating internally. If you're an operator who's continuing to perform after deploying that capital in the last five years, you'll be able to continue operations.

For those that run out of that funding, it will get very challenging. Our business is a cashflow business, rents are quite a large part of our operating costs, and so that's the challenge. However, I'm not sure if there will be consolidation as much as there will be some operators receding from the market, or some space coming back. I do understand your point about more geographic fragmentation. Our focus has historically always been on APAC. We've added a number of new cities, particularly in Southeast Asia, across China, into tier-two markets, as well as around India in the last five years. But within that, I think that it's important for operators to really understand and carve out what their particular niche is. We're targeted at the premium end of the spectrum. Not because that's the only niche that works, but primarily it's because that's where we've been able to accumulate the number of locations, corporate client contacts, and really be able to hit our stride.

I think, whether or not people are going to expect that they can just bring a new brand into an individual market that might've worked in other regions, such as Europe or North America, or even TEC going abroad, there are a lot of challenges logistically to that, of "Are you realistically bringing something new?" I think a lot of people came to Asia thinking that flexible workspace or co-working was a brand-new concept to find that there's a number of operators that have been operating here for quite some time. The Executive Centre along with others. I do think that in terms of the fragmentation though, there will be potentially more people specializing in terms of the type of work that they're doing, particularly with clients. Because there's so many landlords, it's a heavily fragmented market from market to market, country to country around Asia Pacific especially, there's no one dominant landlord in every or even most markets.

So, the consolidation will really come from operators who are able to work effectively with the demand side of the market. If the majority of clients for one operator or a collection of operators, that's a way to consolidate the premium, or grade-A buildings across Asia Pacific, even if it's multiple landlords, so that the same level or tier of clients are willing to work with one operator across multiple different landlords in different cities. So being able to work with landlords in Japan, in China and India is a very different landscape, but being able to work with the same client for their real estate needs across all three of those markets is crucial going forward.

Jonathan Wright:

Yes. I mean, definitely. We've talked about this before, but yes, Asia is very, very nuanced. You've got so many different cultures, you've got the way that landlords view things, different real estate metrics for different buildings in different cities. So, being able to navigate that Asia landscape is not easy. You guys have got a bit of practice, doing it for 25 years, I guess.

With that, I'm sure you've had a lot of members that have been with you guys for years and years. And you obviously at that premium end of the market particularly, large corporates that lean on TEC when they need flat space, how are you seeing deals? What are deals looking like now? I mean, previously, you guys had a lot of smaller deals, five to 10 desks. What are deals looking like now? Are you seeing it bigger, or are you seeing multi-market requirements, where occupiers might be doing deals in several cities with you guys? What is it looking like now for you?

Todd Liipfert:

For us, I'd say that a lot of it has gotten significantly more bespoke. So even if we're working with large occupiers, thousands of headcounts that they're looking to allocate, people have really matured in their understanding of how they want to use flexible workspace. I don't think there's a single unifying strategy that every company uses. However, I think every company has a healthy understanding of how flexible workspace can kind of help them achieve their commercial real estate objectives and things like that. So, I think overall as a company, our average number of desks for contract is eight workstations. So that means on average, any contract that's signed is just an office for eight people, right? So that's much less than a lot of the headlines that you'll see of 300 or 500 workstation deals being done in some markets.

And those are certainly meaty deals, and very healthy, and things like that. And about 25% of our overall capacity is 25 workstations or more, getting up into the 100 or 200 workstation deals. But there are also large occupiers who have thousands of employees globally, that are looking for solutions at the five, 10, 15 person-end of the spectrum. They're looking for solutions on less than a 12-month contract, on something that's a more dynamic, just-in-time, or on-demand solution.

So, what we've really seen is people approaching us seeking consultation in terms of how they can achieve their real estate objectives across multiple markets. For instance, the recent white paper that our marketing team collaborated with Standard Chartered Bank, who's a large anchor client of ours in the Greater Bay Area for their Greater Bay Area Headquarters was based on the fact of, in a post-COVID situation, how does a bank of that scale really manage their resources effectively and really define quote-unquote what the future of the workplace is?

I think a lot of the discussion around the real estate industry has been quote-unquote "What's the future of work?" And I think that rather than any one particular strategy, I think the consensus really, for me, has been that it's going to be any one of a range of different options and how well can commercial real estate occupiers be able to maintain access to a diversity of options that are dynamic, just in time, on-demand. And really being able to, "I have a project team of 15 people that need a month and a half of space" versus "I have a team of 10 people that need dynamic access to a collection of 15 spaces as we employ remote working, or work from anywhere" strategies.

Jonathan Wright:

I mean, yes, definitely. One of the things for us in this last couple of years has been working with our occupier clients to really drill down on what are they trying to solve for. And that looks different for literally everyone, and even companies within the same industry, the strategies range from 100% back to the office to 100%, remote and everything in between.

Todd Liipfert:

You and I were talking about the technology piece for how to support that, right? I know you and I have talked about multiple platforms to be able to really integrate with flex, to allow these large corporate occupiers to drop in and drop out, but also have standard pricing, be able to enjoy those benefits of scale, but also the flexibility in terms of that usage, right?

I'm sure that at Colliers, you're having people come to you as that third-party broker to really be able to connect them to this network of spaces, TEC, and otherwise. We're at a scale where we're able to work with clients like that. But fundamentally it's about, "I need office space here for this amount of time for this amount of people. Can you help me out," right?

Jonathan Wright:

Yes, absolutely. Maybe I'm answering my own question here, but have you seen any one market shift in a particular direction versus another, or is that just depending on where that market is in terms of what's happening with COVID, as things start to open back up?

Todd Liipfert:

It's a little bit hard to tell right now how much of it is purely tied to the state of restrictions in any one particular market, right? So, a lot of corporate strategies have been in response to direct or potential threat of future lockdowns, and how people can best protect their business. However, the thing that I do think has changed is the biggest shift, is people have realized that you don't have to force your entire team to come to an office for them to be productive.

Right? You know, I personally do not enjoy working from home permanently. I want to see my colleagues, I need to collaborate with them and engage with them in an office setting, but the whole theory and focus of what the purpose of an office is, is very important. I see in parallels, a lot of retail that is starting to focus on, "How do we make the retail experience in a real estate perspective, more experiential? How do we really drive that value from the physical space it exists in?" And for us, from an office operations point of view, it's the same thing. "How are we building offices that people want to come to, right?" Because I think the era of "You have to come to an office to work", is no longer true, but I think it's more, "You no longer have to come to one particular office in order to be effective."

It's rather a question of how that works. That being said, I do think that there are some regional differences. As far as I can see, anecdotally within China, there's not a huge embrace of working from home. I think there's a lot of conjecture about whether or not that's about apartment or dwelling size, the amount of people that you're living with, things along those lines. Or is it just the style of work where presentee-ism matters? I think that there's a lot of cultural factors that go into that. And so, we're seeing differences in India versus China versus Australia, which are obviously quite a big gap between those markets, but in each of those markets, we're seeing demand for flexible office space remains strong because there are still people who are choosing the value of the office and "office is an important reflection of the quality of our company or the type of work that we need to do."

Jonathan Wright:

Before we go, I wanted to touch on sort of one last question, if you like, and that was, "From your perspective, what are your three big forecasts, not just for flexible workspace, but for the office market more generally or real estate market, if you really wanted to go that broad, but where are your three big projections or forecasts for the office market?" In the, I guess, medium to long term.

Todd Liipfert:

Well, short answer for the last question. I think in terms of the prediction, I'll be completely honest. My focus really is in terms of the flex market. I think in terms of the overall office market, I'm relatively confident that the demand will come back. Businesses continue to do well. And particularly as restrictions go away, that's just going to open up more ability to trade, and I think people are going to be eager to resume business, right?

I think specifically in terms of three predictions that I can come to is, first of all, landlords will become a lot more involved in the selection process and the programming process for their buildings, whether or not that's including flex or not flex is one option. Elements of retail, elements of residential, how all of it go together.

I think financial performance and covenant rank of all of those will continue to matter. Previously, it was people approaching buildings and saying, "You know, we're a flexible operator. How much space do you have? We'll take all of it." And I think now the conversation is very firmly landlord saying, "This is how much we want to have of these types of spaces within our overall building, from a programming perspective." And to me, it seems a lot more considered strategic, which I think is good.

Second of all, I think corporates will look for increasingly more dynamic ways to provide office solutions to their networks. Whether or not that's companies deciding to have five locations in the city at a smaller scale in different areas rather than one large location or having co-working passes or dynamic just-in-time office passes within flexible space is up to each company to do.

But I think that the large enterprise deals that really define the flex space industry from 2017 to 2019, we've signed a three-year deal for 500 workstations, and things like that, those are fundamentally just short-term sublets. They'll continue to happen, but I don't think it will be the focus of most corporate strategy. MNCs are looking for more flexible solutions like Uber and Airbnb for use of office on a clock.

And then last, I think operators will move to hybrid leasing models, both to reduce the risk of cost exposure from individual sites, right? Everyone has seen now a lot of people going through their first downturn that when your occupancy drops below 60% or 70%, your profitability takes quite a hit. And with big rental bills and everything like that, that can be a serious strain on your cash flow. However, the other thing that I think hybrid leasing models on the positive side is, it's not just operators are going to be selfishly protecting their risk is that they're able to accommodate landlord special requests for, "We want this type of flex space. We want conference spaces, building cafes, lounges. We want you to increase the experiential value of our building and bring higher quality tenants elsewhere in the building." So those are really the three that I see. Sorry if that's a bit specific to flex market, but hopefully those are, at least, interesting points.

Jonathan Wright:

We're going to have to wrap up but thank you so much for your time. It's been great catching up. Todd, thank you very much. It's been great having you.

Todd Liipfert:

Great, thanks. Cheers.

Jonathan Wright:

Thanks mate, bye.

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