Fostering Entrepreneurship through Shared Workspace

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Mel King Institute

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Places where lots of people and businesses share a physical workspace & infrastructure such as desks, offices, meeting rooms, kitchens, specialty equipment, shop space, and sometimes administrative staff.
Collaborative workspaces emphasize a culture of sharing and connection. They provide shared infrastructure and administrative support systems to let entrepreneurs focus on their business.
Because the economy is changing…

and people are working differently.

Today, @ 1 in 3 U.S. workers are freelancers, temps, independent contractors, and “solopreneurs”.

By 2020, this figure is expected to reach 40%.

Source: U.S. Bureau of Labor
This changing focus on

- **sharing** rather than owning;
- **temporary work** rather than permanent employment, and
- an increasingly **mobile & cloud-based economy**

is disrupting how we work, live, play, and learn.
So why are real estate developers and business owners jumping on the shared workspace bandwagon?
Benefits for building owners/developers:

• **Creates a flexible leasing strategy** that relies on multiple businesses, and focuses on local demand, business clusters, community needs, and complementary uses that **create a place**…

• **reduces financing risk** by relying on multiple businesses to pay the bills;

• Allows for **incremental development** options;

• **lowers build-out costs**, allowing for a mix of smaller and start-up businesses;

• **maximizes potential revenue**
Benefits for businesses/individuals:

• **Saves time and money for business start-up** by offering options for time-sharing furnished space, equipment, etc;

• **Reduces overhead** by spreading fixed costs- like rent, utilities, insurance, cleaning, internet, etc. across multiple users; pay as you go;

• offers a **built-in community** of peers--- creates opportunities for knowledge-sharing, cross-marketing, networking, collaboration, shared-staff, advice, mentoring, etc..

Creating a strong sense of community and connection is key.
Benefits for a community:

By leveraging the energy and activity generated by multiple users, shared workspaces can transform vacant buildings into vibrant hubs of economic activity.

“Innovation & creativity are the engines of economic growth.

Creativity is not a solitary process... Bringing creative professionals under the same roof allows members to learn from each other and with time collaboratively start new ventures, grow existing businesses and enhance their business network. “

– Click Workspace website, Northampton, MA.
And the economics can make sense:

5,000 SF of space

Option A: traditional
Find 1 tenant to lease the whole space at $14/SF + NNN- or @ $85,000/year in occupancy charges- *good luck!*

Option B: shared space
Find 25 people each able/willing to pay $400/month and you cover the occupancy plus generate @ $35k for staffing

*The power of compounding*
## The shared workspace continuum:

<table>
<thead>
<tr>
<th>Model</th>
<th>Physical space</th>
<th>Programming/ support</th>
<th>Lease terms</th>
<th>Examples</th>
<th>Op entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRADITIONAL BUSINESS CENTER</td>
<td>Separately space; share bathroom, lobby, maybe reception, security</td>
<td>No coordinated programming or business support</td>
<td>Conventional landlord/tenant relationship; fixed rent terms</td>
<td>Lawyers’ offices; most downtown Boston office buildings</td>
<td>Typ. for-profit</td>
</tr>
<tr>
<td>SHARED-USE</td>
<td>dedicated office w shared amenities/facilities-kitchen, meeting rooms, copier</td>
<td>Limited formal business support; organized informal gatherings; tenants often share some goal/identity</td>
<td>Traditional landlord/tenant; fixed rent terms</td>
<td>Third Sector NE, 95 Berkeley, Brewery Small Biz Center/JP; many artist studios</td>
<td>Mix of for-profit and NFP</td>
</tr>
<tr>
<td>CO-WORKING</td>
<td>Mostly shared space; open floor plan; often focused on specific industries</td>
<td>Emphasizes collaborative work environment; on-site staff offers events, trainings, org, gatherings, + gen. admin</td>
<td>Membership-based; Flexible terms-Hourly, monthly</td>
<td>Work Bar, Space with a Soul, Click, Cambridge Innovation Center, Impact HUB, Running Start</td>
<td>Incr for-profit</td>
</tr>
<tr>
<td>BUSINESS INCUBATOR</td>
<td>Mostly shared space; open floor plan; often with mix of office and specialized equipment</td>
<td>Explicit mission focus; integrates business support &amp; TA; emphasize collaboration, community</td>
<td>Curated application; typ. 2-3 year timeline; rent terms vary</td>
<td>Greentown Labs, CommonWealth Kitchen, BOLT</td>
<td>Typ. not-for-profit</td>
</tr>
<tr>
<td>BUSINESS ACCELERATOR</td>
<td>May or may not include physical space</td>
<td>focused specifically on jump starting a business; typ. formal curriculum; space/program often free, but may require biz to give up some equity; emphasize collaboration, mentoring, knowledge-sharing</td>
<td>Competitive/curated; typ. time-restricted to @ 6 months or less;</td>
<td>MassChallenge, EforAll, Smarter in the City, Cleantech Open</td>
<td>Mix of for-profit and NFP</td>
</tr>
<tr>
<td>MAKERS, FAbLabs, HACKERS, ETC.</td>
<td>Mostly shared space; open floor plan for creative industries; equipped w/specialty tools</td>
<td>Mostly arts &amp; tech focused; limited formal business support, but lots of classes, skill-sharing, focus on collaboration</td>
<td>Hourly, monthly, annual membership; no specific time constraints</td>
<td>AS 220, Artisans’ Asylum, TechShop</td>
<td>Typ. not-for-profit</td>
</tr>
</tbody>
</table>
Co-working spaces across Massachusetts

“You focus on your business.
We take care of the rest.” - CIC

Pricing varies from $20/day for drop-in desk space to $450/month for dedicated offices.

Mix of for-profit & non-profit operators.
Multiple types of workspaces
According to Deskmag’s 2013 Global Co-working Survey,

72% of co-working spaces become profitable after @ 2 years in operation.

On average, income is generated from:

- @ 60% from desk rental;
- @10% from renting meeting & event space;
- @5% in food & beverage;
- @5% in classes and event fees;
- @3% on back-office services

100 pennies still adds up to $1.
Economies of scale matter.

- 70% of spaces that serve 50+ members are profitable.

- Spaces with 10-49 members have a profitability rate of @ 40%. The more members they take on, the more profitable they become.

- The most operating difficulties are with small spaces with less than 10-20 members; 56% report a loss. Even though they have lower operating costs, only @ 25% of small spaces cover their costs.

*Timesharing workspace*
Business incubators & accelerators

• **Have an explicit mission** to support the start-up, development and growth of businesses.

• **Intentionally integrate business training, administrative services, and technical assistance** into a comprehensive support program.

• Are typically **curated** – meaning there is a competitive selection process.

• Are generally **time limited**, with the end result being “graduation” from the program.

• Often integrate **both shared and separate work space** as part of the program offerings.
Business incubators increase the likelihood of success.

87% of businesses that graduate from an incubator are still in business 5 years later, compared to less than 50% of businesses overall. 

Source: NBIA
What’s the difference between an incubator and an accelerator?

**ACCELERATOR:**
- Short time-frame, typ. 3-6 months; focused on getting quick, specific outcomes—
- Formal curriculum
- Focus on mentorship/connections for launching/scaling business
- Frequently, accelerator will take equity stake in return for enrollment
- Economic model relies almost entirely on grants
- *Examples: MassChallenge, E for All*

**INCUBATOR**
- Longer time-frame; typ. 1-4 years; focused on building businesses
- Mix of office space and specialty equipment
- Integrated training programs- may not be formal
- Economic model relies on mix of grants and earned revenue
- *Examples: CommonWealth Kitchen, Greentown Labs*
Most common goals of incubation programs are:

- Starting or growing businesses;
- Creating jobs;
- Enhancing a community’s entrepreneurial climate;
- Building or accelerating growth in a particular industry; and
- Diversifying and strengthening local economies.

What business incubators typically help with:

- Business planning
- Financial management
- Access to capital
- Legal/organizational structure
- Marketing, procurement, and sales
- Mentoring & coaching
- Networking
- Access to equipment & facilities
- Intellectual property/patents/trademarks
The rise of maker nation

In April 2013, MassDevelopment issued a report describing makerspaces as, “…new and rapidly evolving hotbeds of innovation facilitated by the latest in prototyping technology while rooted in traditional pillars of manufacturing: engineering, design, science, and art.”
Artisan’s Asylum, Somerville

- 50,000 SF warehouse in the old Ames Envelope facility, Somerville, MA.
- Currently hosts @ 280 monthly members;
- 160 studios
- 50 pallet storage units, 90 shelf storage units available for rent.
Sources of revenue:

- Membership fees
- Storage fees
- Class fees
- Printing/materials
Incubator? Co-working? Makerspace? Which is right for you?

- What are the space constraints/opportunities?
- What are the local/regional needs?
- What is the demand for space?
- **Who is the operator?**
- How you will you pay for the renovations? The ongoing operations?
Getting started: you need to more than hang a for-rent sign declaring you’re an innovation hub

First the people, then the building
• What is your goal?
• Who will use the space?
• What types of services/ amenities do they need?
• Who will find the tenants/users?
• Who will operate it?

Create a compelling story.
Market early and often!

People don’t buy what you do; they buy why you do it.

Simon Sinek
## Development and Operating Budgets: the basics

<table>
<thead>
<tr>
<th>Hard costs</th>
<th>Soft costs</th>
<th>Fees &amp; Reserves</th>
<th>Operations/occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>acquisition</td>
<td>architect/engineer</td>
<td>project staff</td>
<td>rent/mortgage</td>
</tr>
<tr>
<td>construction</td>
<td>environmental</td>
<td><strong>start-up</strong></td>
<td>utilities</td>
</tr>
<tr>
<td>Furnishings &amp; equipment</td>
<td>legal</td>
<td>rainy day fund</td>
<td>insurance</td>
</tr>
<tr>
<td>accounting</td>
<td>reserves</td>
<td></td>
<td>taxes</td>
</tr>
<tr>
<td><strong>marketing/leasing</strong></td>
<td></td>
<td></td>
<td>management</td>
</tr>
<tr>
<td>zoning</td>
<td></td>
<td></td>
<td>bookkeeping</td>
</tr>
<tr>
<td>permitting</td>
<td></td>
<td></td>
<td>cleaning, trash, recycle</td>
</tr>
<tr>
<td>insurance</td>
<td></td>
<td></td>
<td>office supplies</td>
</tr>
<tr>
<td>loan interest</td>
<td></td>
<td></td>
<td>telecomm</td>
</tr>
<tr>
<td>inspections</td>
<td></td>
<td></td>
<td>reserves</td>
</tr>
</tbody>
</table>
The role of the public sector

- Catalyst/connector/convener
- Linkages within geographic and industry hubs, institutions, colleges & universities, etc.
- Data resource on demographics, employment, income, etc.
- Potential financial support at local and/or state level
- Critical step for zoning & permitting
- Formal public support lends credibility; helps with securing funds
- Remember: it’s a collaborative effort; not just a real estate play
Take-aways/advice:

• The building is the easy part– creating a strong community through leasing and operating that’s hard! Start with WHY! Build interest & momentum.

• There are no cookie-cutter models – the project must respond to local needs & financial realities

• Have a strong operator/partner from the start.

• Have staff dedicated not just to the physical or financial development, but also leasing, marketing, operations, etc.

• Whenever possible – work incrementally

• Have a compelling narrative.

• Be persistent, relentlessly entrepreneurial, opportunistic, & creative!