CRE Tech Talks

Episode #12: The Digital Economy and How Tenants Evaluate Office Space

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Scott: Thank you for the introduction. Welcome to this episode of the 2016 "CRE Tech Talks" podcast series. I am Scott Sidman from Building Engines, and your host.

I traveled for a couple of days this week to New York City from Boston. As I usually do when I do that, I take the Amtrak I sold out, which I love because of the ability to use the time productively.

One of the things I can count on and expect when I take the train is Internet access and connectivity. Coming back in the train yesterday afternoon, and having that access be unavailable or really slow for the first 30 minutes of the trip, I grew increasingly frustrated.

I did relax a little when I remembered Louis C.K.'s great bid on the sense of entitlement and expectation we all suddenly have for these modern miracles that didn't even exist a few short years ago.

Our collective expectation for readily accessible and fast connectivity anywhere and everywhere is very real and only increasing. Nowhere is it higher than any lives at work and in the buildings we work in. It's core to the digital economy we have. That is the focus of today's topic, "The digital economy impact on how tenants evaluate office space."

I'm pleased to welcome to the podcast Arie Barendrecht, CEO of WiredScore, to help explain this in greater detail, and how WiredScore is helping the commercial real estate industry address those and all the expectations we have for connectivity in our work lives. Welcome and thanks for joining us on the podcast, Arie.

Arie: Scott, thank you so much for having me. I'm quite excited to be on the podcast.

Scott: As we usually do, we'd like for our guest to tell us a little bit about your professional background. Along with that, something unique, interesting about yourself that the audience would enjoy hearing about.

Arie: Definitely. I've actually spent the majority of my career outside of both real estate and technology, interestingly. Mostly, I've been working in professional services, doing strategy consulting at firms such KBMG and Boston Consulting Group with a brief break to get my MBA from the University of Pennsylvania.

The common thread of my background has been leading teams to help organizations in media, technology, and financial services, address and solve different strategic problems, whether it's pricing strategy, or org structure changes, evaluating acquisition target, and solving those kinds of strategic problems. That's what led to WiredScore albeit in the new industry for myself. That's how I got here today.

The interesting fact about myself, which is tied to my professional background, you could say, this time of the year, I always start thinking about summertime and baseball starting. It always reminds me of my first job, which was pretty cool. For the first couple summers of high school, I was actually a peanut hopper, selling peanuts in the stands of the Angel City in Southern California.

Scott: That's great. Were you accurate from a pretty good distance?

Arie: Yeah. Interestingly, the supervisors would limit. They would put in guidelines for how far you're allowed to throw the peanuts, so the people weren't throwing them across the section, but everybody broke those roles. The farther you throw the bag of peanuts, the better tip you're going to get when you collect your cash.

Scott: Absolutely. That's what we count on, that kind of experience. Really interesting. Thanks for sharing that. An interesting background. Sounds like you're a perfect fit coming to the commercial real estate space with no preconceived perceptions or ideas to influence what you do.

Tell us about how you got started at WiredScore, and what WiredScore does, and your mission, and those things.

Arie: WiredScore is the first and only rating platform for what today's digital economy depends on the most in their office space. That is having an amazing Internet connection as you referenced very eloquently in the introduction. Every good startup has an analogous business that needs to describe what they do.

We say that we're the Michelin Star of Internet connectivity for office building. Maybe trains down the road as well. For now, we're focused on the commercial fit, help explain a little bit more about what that means and how we work with the real estate community.

Anecdotally, I like to share it as to imagine that you're a building owner or manager. Think a lot of the podcast audience. You have some vacancy in your building in a market like Boston, or New York, or DC that's filled with a lot of cutting edge companies.

As a building owner or manager, you've done all the right things. Your building has a gym, and roof deck, and great access to public transport. You know that companies would love to move into the space.

The problem is when brokers or tenants are researching or viewing the building. There's a major part of the story that leasing teams and property management teams are unable to tell confidently. To be honest, a lot of property managers and leasing teams are hoping the topic doesn't even come up. That's Internet connectivity.

As a result, when you're not able to talk smartly about the Internet connectivity of your building, that corporate real estate person that's visiting your building can't go back to their CEO and say, "This building is amazing. It's perfect for our company. We should put it on the shortlist."

Scott: It makes a lot of sense.

Arie: WiredScore aims to change that and to help building owners that have best in class Internet connectivity to attract tenants and promote their buildings as tech-friendly destinations and a hub for innovative company.

On the flip side, the building owner is behind the curve when it comes to connectivity and technology. We help consult for them and advise as to how they can do better and attract the type of tenants that everybody wants.

Scott: How long have you been doing this? When did you guys start?

Arie: We launched WiredScore in the end of 2013 in partnership with Mayor Bloomberg and his administration when he was in office here in New York City.

They were our first proponents as they saw WiredScore as a great way to get the real estate community of New York to wake up and realize this is an important thing to address. We are now serving markets across the US and actually launched in London last fall.

Scott: Wow, congratulations.

Arie: We're working with over 100 real estate companies. Our rated buildings, we call them Wired Certified Buildings. We have about a little over a quarter billion square feet of office space that has achieved Wired certification from clients like Brandywine, Invesco, Beacon Capital, Hein, KVS, CIM, Jamestown, Kilroy. We have a great list of adopters so far.

Scott: Those are terrific companies. A number of our customers in there as well. That's a great start for you guys in a relatively short period of time. Congratulations on that.

Let's take it up a little bit. We're going to come back to the company and how you directly help your customers. Share with us your perspective and definition of the digital economy and start

with that. Then, dive in to how that impacts commercial real estate, and their tenants, and so forth.

Arie: That's funny. At the various real estate events we all go to, a lot of these terms get tossed around -- digital economy and creative office. Someone raised their hand at a Biznow event recently and said, "What exactly is creative office?" That was a great wake-up moment for the crowd and panelists.

Like I said, it can be defined very narrowly after so-called tech companies. We at WiredScore take a broader view of the digital economy because we think all companies today are technology companies to a large extent.

When you look at century-old occupations like doctors and accountants, people like that are storing files in the cloud. They're video conferencing with their customers.

Doctors are using telemedicine. They're leveraging technology to market and scale their businesses. They're starting to contribute to the digital economy as much as anybody else.

Simply put, the fact that our goods and services are now being delivered through the Internet in a lot of instances at exponentially growing rate. That's shipped through the air, or on railroad tracks, or across bodies of water is what the digital economy means. That's what impacting real estate.

Scott: The implications, obviously, the extension then into how we think about space and how we evaluate space is where you come in. What are the key considerations you see that tenants have?

Arie: There's a lot of discussion in writing about tenants today, and how to attract, and retain tenants today. Most of the discussion can be categorized in one of three buckets.

One is flexibility. Flexibility can be defined in both workspace design and construction, but also in lease term, companies a lot like WiredScore today don't have a ton of predictability to how they're going to scale over time.

As a result, we're looking spaces that can work with us and understand our need. That's why I love platforms like PivotDesk which is helping building owners implement and manage flexible workspace.

Second bucket is mobility. We now want to be able to come and go from buildings as much as we want and keep doing our jobs the same way. Our homes are starting to look a lot more like workspaces. Our workspaces are starting to look a lot more like our apartments, which is interesting, and only being impacted more by on-demand delivery of anything in all the apps that we have in our pocket.

The third bucket is the one near and dear to my heart and WiredScore's heart, which is connectivity and our dependence on connectivity which can't be overstated. That story, I really like, which a friend of mine told me who owns a coworking space in Brooklyn.

His first months of operations were a total nightmare. The first week, he had problems with the HVAC. It was June and was worrying about keeping the temperature the right way for people to be happy. Nobody complained.

He had another night where his light weren't working appropriately. People were working with their computers in the dark, but again, not a major issue. Towards the end of his first month, he had an Internet outage, and the WiFi went down. It was absolute pandemonium in the coworking space.

People want refunds. People are back out of their commitments. The next month goes to show what matters now. We can sometimes work at a dark office with no AC. If the Internet goes down, that's a major problem.

Scott: Absolutely, because I related to it yesterday. That expectation is absolutely there today. Is there any available data on the state of connectivity or the importance of connectivity in the workplace? Anything you could share that might draw some insight to how important this is?

Arie: Interesting. You would assume that the telecom companies with their large pockets would be funding a lot of the studies. We actually didn't find a lot of the data out there from those companies, helping to quantify the importance of connectivity to tenants.

We didn't think about any start-up. We even went out and did our own survey a year ago. We surveyed about 450 respondents in the New York area, and asked them to rate what matters when considering office space. These are all people that have been involved in office space decision.

Heavily unsurprisingly, the first two most important things were cost and location. Those will be the most important things till the end of time. Interestingly, connectivity and access, quality, telecommunication ranked third above things like access to transportation, quality of building management, environmental sustainability of the building, and other amenities like recs, and gyms, and rooftops that are often mentioned to draw a tenant.

That was a good, eye-opening, and reinforcing data point for us to understand where connectivity falls in the hierarchy of needs.

Scott: That's really interesting. That's a pretty big shift in just a short period of time from that traditional number three spot, which is more closely related to the things you mentioned like property management, quality, the service level in the building. That's always been the occupier of that spot. Again, in just a short period of time, to have that come up to number three is pretty insightful.

Arie: Interestingly, we surveyed both decision makers at companies, as well as employees. To employees, the Internet connectivity was even higher. Maybe the corporate real estate folks haven't fully caught on. The feeling is there from the employees about that level of importance of getting their job done, and not being impeded by little outages.

Scott: What are you seeing in terms of how landlords are using in-building technology, and connectivity, and things like that to drive leasing and keep tenants happy and renew, as well as attracting new tenants? Then, how WiredScore is helping in that regard?

Arie: I'm very attuned to this. I'm seeing landlords going to market with taglines and branding for their buildings, with slogans such as "Unrivaled connectivity" and "Technically better." An event in Newark for a building; that was a broker event and they're attracting tenants to Newark because of the technical capabilities of the building. They're filled with media companies, broadcast companies.

We're seeing that within our client base and beyond. For our clients, we have owners, for example like the Empire State Building, which is this obvious famous landmark building that's reinventing itself for the digital economy.

They have tenants like LinkedIn and Shutterstock. They have 10 Internet service providers to choose from, and incredible cellular connectivity on every floor. They made the right infrastructure investment.

They're using technology and also achieving WiredScore rated platinum building to attract and retain tenants. You can come do business in this building.

Other non-CBE, there's a large, very cool, complex building called Industry City, which is on Central Part in Brooklyn. They're appealing to all sorts of tenant, but tenants, and businesses of a manufacturing client to them.

They pursued a WiredScore certification so that they can tell the story like, "Look, we might be in Central Park. Not what you consider the technology heart of New York, but we also have great connectivity here. You don't need to worry about that if you come here."

Scott: That makes a lot of sense. You raise a point in both cases, where I think about ourselves, we're a tenant in a building. Obviously, we occupied space. We have our own internal IT stuff that's causing running around and fiddling with things to help with our access here, whether it's wireless or hard-wired.

What is the line of responsibility for connectivity between tenant and landlord in a building?

Arie: It's a great question, because there lays the reasoning why not all real estate companies or landlords have prioritized telecom as something they invest in and promote externally. For a lot of traditional real estate companies, it's been purely a tenant's problem. You move in, and here's the ISPs in the building. You guys figure it out. That's causing a lot of pain for tenants.

Bringing in your own provider into a building can take 6 to 12 months. It can be very expensive if the infrastructure is not there in the building to support installation of a new provider.

There are certain things that landlords are in control of. Those things are availability of multiple options from copper coax, and of course, fiber, and even satellite-based providers from the rooftop.

Accessibility to those options, there's a lot of horror stories about tenants who want to sign up for a provider. They're on the 20th floor. The provider's equipment is in the basement.

To get that cable run from basement to the floor 20 required vertical drilling which no one planned for. A really well-positioned building is going to have proactively run fiber cables that are easily accessible with no additional cost.

Of course, what's down there in the basement and how protected and secure all of that equipment is impacts the tenant's experience. If I was moving my business into a building, I would want to know that the telecom equipment is in a secure environment, caged at the appropriate temperature where no one can tamper with it.

Not what we see all the time, which is running loose, running through restrooms, running in places where engineers are doing other types of work. They could easily get caught. Then, their business goes down for an hour or a day. That can be crippling for a company.

Scott: Absolutely. I think about, again, our own situation here. We've been left to fend for ourselves. That service offered by the landlord and that partnership in that regard would go a long way. That's probably been the case in every experience I've had as a tenant in a building. Absolutely makes a lot of sense.

Let's jump back over now to WiredScore. A couple questions about the company, and your team, and so forth. My first question is, is WiredScore a tech company?

Arie: The word tech and innovation can get used as substitutes in a lot of ways. We are clearly not a technology platform. We're not a software. We're not a SaaS, software as a service.

Our secret stuff, if you will, is our telecom expertise and the fact that we've surveyed a quarter of a billion square feet of office space and know exactly what makes a best in class tech building from a lesser tech-enabled building.

We do use a great deal of technology to perform our work in a way that we capture and store data. For that reason, I'd probably say we're a tech-infused company that's doing innovative things. We're not a traditional tech company from a software perspective.

Scott: Great description. I like that. You mentioned about how you engage the technology use. Tell us a little bit about the team, and who the people are that work with your customers, and how you engage with those customers.

Arie: As I mentioned in the beginning, coming from a non-real estate or telecom background as a founder, the key thing for me in building the WiredScore team was to surround myself and bring on board expert from both those industries. We can do what we aim to do and fit at that intersection as one of the top leaders.

Our operation team is comprised of former both telecom engineers and actually urban planners who have the in-building and outside building expertise that we need to be the universal standard for Internet connectivity.

The other half of our business is the people that are working with and liaising with all of our clients, who are commercial real estate owners and brokers. Of course, no one better to do that than former real estate brokers.

Our team is comprised of former people from Cushman & Wakefield, Avison Young, Newmark Grubb Knight Frank. They're the ones who understand what it's like for a landlord or a property manager to run a building and get happy tenants in those spaces.

The rest of the company is the support staff. That's probably the bucket that I fall in. It's my job to make sure everyone else is able to do their work and do it successfully.

Scott: Who do you typically begin a conversation with at a potential client? What department? What roles?

Arie: Interestingly, even though our domain is telecom, we generally meet with and engage with people on either heads of asset management or heads of leasing. At the end of the day, a Wired certification is a tool that those asset managers and leasing teams can use to better position and market the building.

We do interface through our process with property management and building engineers to collect and evaluate the telecom information in the building. Our engagement level is generally with asset management and leasing.

Scott: Relatively straightforward proposition I would think. Are there any concerns or objection you get? Do you feel that people, once they understand what you're offering, they buy into it pretty readily?

Arie: As you said, it's a very easy service to understand. Our most common response which I love is, "Why didn't I think of that?" which is always nice to hear. That said, with any new service, there's early adopters and there's followers.

Within New York City, for example, we have 250 plus buildings that have achieved their Wired certification. The first 20 was difficult. Who's going to take a chance on a new way of thinking about building quality, thinking about the level of service that a building owner is providing?

First owners were SL Green who's actually the largest commercial owner in New York, and Rudin Management which is a famously, tech-forward real estate company here in the city.

From there, we answered that question. Is this going to be a way that people evaluate buildings? Every market we go into, there's leaders and followers. Generally speaking, we're being received very well.

Scott: You mentioned you came from outside of the industry, had a more of consulting background as well. What are some of things you've learned or didn't anticipate and had to adapt to in the market since you begin WiredScore?

Arie: I could probably wax on this for a while. Anyone listening from the telecom industry would nod when I say this, but it's been quite interesting the lack of education or general understanding of IT from the building owner side of things.

Of course, I'm making a very general statement there, and hopefully not being too insulting. We're asked constantly to come in to ownership -- landlords and real estate brokers -- to give very basic telecom one-on-one questions.

What is fiber? Why is it better than other options? What does a good connection look like? What does a bad connection look like in terms of speed and things like that?

That was a little bit eye-opening given how fundamental connectivity is. There's a lot of education that still needs to take place to the real estate community, so they can talk to tenants about it and talk to a CTO about it and really speak from an educated level and we're hopefully helping to resolve that.

When we launched WiredScore, we were often compared to LEED, the LEED certification from the USGBC, which as you can imagine, it's an obvious analogy. They're quite famous and successful.

I've been surprised at how that comparison has not been well-received from some of the landlords we work with. It's not that people don't think sustainability and environmental efficiency is important. Potentially, there's things that LEED is not, whether it's the complexity of the platform or the practicality of its rating system that not everyone is in agreement with.

It's an eye-opener for WiredScore to make sure that what we do is authentic, and practical, and is really driving value in a way that is very applied.

Scott: Absolutely, pardon the pun perhaps even more sustainable. Last few questions for you. This has been tremendously interesting and eye-opening for me as well. You've been doing this for a few years now. You've been in the space. We've seen each other at the same conferences as well.

I'd be interested, and sure the audience would as well, in terms of your perceptions on other technologies or trends that are coming that you think people should pay attention to and will also impact the way tenants experience work in their lives and buildings.

Arie: There are a couple of different types of technologies emerging. All will be useful. All will provide more transparency and efficiency into the way the real estate community operates. Some will have more drastic impact than others.

Services or products like WiredScore are simplifiers more than anything. Our objective is to take this complex, murky area, and try to bring transparency to see how well connected buildings are.

That way, owners can understand how well they're wired and tenants can identify the best connected building. A lot of database companies might fall on that area. Either they're bringing transparency into decision making that wasn't there before.

A second type of technology in real estate which is enabler, technologies that are helping people in real estate transform painful activities and make them more efficient through automation, and mobility, and things like VTS and high-power. Honest Buildings probably fall into this category. Bringing efficiency, not totally changing the purpose of people's work, but just making it more efficient.

Down the road, there's the real disruptors who are not just improving the way we do things today, but creating an entirely new way of doing things. That's where augmented reality and virtual reality fall. Those technologies are barely in the first inning with regards to real estate, but will transform the way we communicate, and work, and shop.

I had a friend who did a demo with a company called Magic Leap. Basically, he was able to walk into a retail store, browse through products, shop without leaving his office through a virtual reality headset. That's the way that we can shop down the road. How does that impact our retails, real estate?

Scott: That's pretty amazing. I'm not sure it goes well for the fitness of the population down the road. It sounds like that movie "Wall-E," but that's incredibly interesting. Great insights on those trends as well. You nailed them. I tend to agree with all of your points there. Thanks for that.

In wrapping up, let's share three or four takeaways that you'd like to leave with listeners about the connectivity, and related importance of how that improves the tenant experience.

Arie: Three takeaways for folks to remember is, today, all companies are tech companies, not just start-up. That innovation is taking place on not a linear but exponential rate. A good thing to point out.

Second, we as workers are becoming further and further dependent on digital connectivity. Technology is pervasive. In our need for data, skyrocketing this dependency is growing and growing.

The third point is, if all companies are tech companies and connectivity needs are increasing exponentially, I honestly believe that owners that are offering best in class tech resources, and effectively marketing, and communicating, their connectivity to the marketplace will be in highest demand.

That's the reason why WiredScore exists, to help landlords ensure they're providing exactly what tenants need with regards to digital connectivity and make easy to attract tenants in that way.

Scott: As a marketing guy, when you think of things at the beginning from your customers' perspective, you generally end up making the right decisions. That's exactly what you're promoting with each of those points. Great way to sum it up.

I want to thank you and appreciate your participating in the podcast, Arie. Perhaps share with the audience the best way to learn more about WiredScore and to connect with you or the company.

Arie: Wiredscore.com is our website, where we have a ton of information. One of the ways people engage with us on the website particularly if they're building owners, or managers, or leasing agents, is we have a free confidential survey that can be taken.

There's a button right in the middle of the front page to take our survey. It's a 10-minute question survey about connectivity of a building. We'll give instant feedback as to how the building stacks up against our certification standard.

An interesting, very light-touch way to get a sense for what we evaluate, and also how a building potentially stacks up against the standard, and the peers, and the market.

The other way people can get in touch is obviously to email me. My first name spelled arie@wiredscore.com. I'm happy to chat with anyone.

Scott: Again, reminder for our listeners that we will have all those contact points in the show notes, along with the transcript and information you can download. Great service.

Again, we share some mutual clients and I know from those customers that they're incredibly happy with the service they receive, the results WiredScore delivers for them, and certainly believe in the mission and the importance of what they're trying to do.

I encourage you to go take a look, have a conversation with Arie and his team. No downplaying the importance of what they're trying to do and how they're helping the industry.

With that, I want to thank Arie again. Thank you for listening. Hopefully, you'll join us again on the next podcast coming up in the next few weeks. Thanks.

Arie: Thanks, Scott.

QUESTIONS FOR THE HOSTS?

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