

the **hammersmith** group
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Rethinking real estate: Microrentals

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Microrental strategies can help developers and property managers reduce risk and vacancy loss. Rather than relying on a few anchor tenants or long-term leases, microrentals emphasize smaller spaces targeting a greater number of businesses, or renting spaces for smaller intervals of time.

Microrentals complement conventional leasing arrangements. Several trends are making this a timely and increasingly viable strategy: economic conditions (microrentals reduce the risk of a single anchor tenant going bankrupt, leaving a specialized or sizeable site vacant for an extended period), demographic shifts in the workforce from employees towards more independent contractors, and social media.

Themed business clusters

There are historic precedents for microrentals and themed business clusters. The 19th century covered markets such as Mercato Centrale in Florence, Italy, or the Reading Terminal Market in Philadelphia aggregate a number of independent miniature stores and kiosks. Subdividing a larger space for a number of similarly-oriented tenants can create the critical mass for a themed business cluster that provides co-location benefits and significant foot traffic, and which may command premium pricing.

Horizontal bundling of tenants provides a range of products and services aimed at a specific customer profile (e.g. the luxury shopping along Rodeo Drive in Los Angeles, or the bohemian retail along St. Mark's Place in New York City). Vertical bundling assembles tenants around a specific value proposition (wellness, antiques, etc.) or a specific business interest (the Jewelry Building in Boston, or the Toy Center in New York City).

Other companies employ the same strategy on a smaller scale. Endossa is a collaborative store in the trendy Rua Augusta neighborhood of São Paulo, Brazil, which rents shelf space to entrepreneurs looking to market their products.

On a large scale, the planned eco-city of Masdar in the United Arab Emirates was designed to draw international alternative energy businesses. Merely locating in the net-carbon-neutral city provides businesses with carbon credits which can be traded on the world's carbon exchanges.

Free agent nation

There has also been a structural shift in the economy, and roughly 16% of the workforce, or approximately 25 million Americans are independent contractors, self-employed, or temporary workers. Flextime has also become a more popular option.

“About 5% of people are working one to five days from home,” said Nelson. “Will developers respond to this demographic shift by building home offices into more houses and condos?”

In order to separate home and office life, and also for tax considerations, some members of free agent nation may prefer to lease small office space (150-300 s.f.) in a professional building that offers support services. Subdividing buildings into a large number of small spaces that resemble offices of university professors can provide a density which supports other services: dry cleaning pickup/drop-off, on-site day care, or conference or presentation rooms that can be reserved for client pitches or other meetings. The interior retail arcade on the first floor of the Berkeley Building in Boston or at the Chelsea Market in New York City are excellent examples of the sorts of microrental businesses that can be supported by the population density of an office complex.

In addition, this sort of micro-rental business center lends itself to being developed as an intelligent building where the various systems are converged on an IP network.

“The building's developer can provide the convenience of a turnkey solution,” said Can Habib, of Cisco's Connected Building Services. “Tenants can lease a space and immediately have the IP telephony, internet, and digital videoconferencing available. Because these are being provided by the building owner, these are additional revenue streams for the building, and tenants have the convenience of a single bill.”

These sorts of ‘free agent clusters’ could benefit from ‘web on the wall’ capabilities like that of swissnex boston, the Consulate of Switzerland located in Cambridge, Massachusetts. It is both a physical and virtual space that facilitates collaboration via high-bandwidth, always-on audio and video links. A more limited version of swissnex's web-on-the-wall could foster connections between free agents and their client offices.

Purpose-built vs. flexible spaces

A number of corporations are rethinking the compartmentalized approach of cubicles, offices, and short-term conference rooms.

“When IBM redid their offices, there was less emphasis on individual offices and more focus on team rooms,” said Michael Nelson. “Teams might take over a meeting room for several weeks, with white boards covered in code and product prototypes. It was a medium-term collaborative space that could be dedicated to a single purpose.”

Social media enhances micro-rentals

Coffee shops such as Starbucks and Panera have become collaborative spaces or outsourced meeting rooms for a number of corporations and start-ups. “Many knowledge workers use these third spaces, just for the energy of being around other people rather than working alone,” said Nelson.

“Also, social networks such as MeetUp.com are driving the need for short-term meeting spaces or micro-rentals,” said Jeff Jarvis, author of *What Would Google Do?* “Even if the venue is a coffee shop or restaurant, MeetUps are increasing foot traffic and drawing people who may spend money there.”

“Micro-rentals lend themselves to a social media strategy,” said Elizabeth Pigg, Vice President of Social Media for Edelman Digital. “More tenants, especially in a themed business cluster of like-minded entrepreneurs, mean that social networks and referrals may drive additional rentals. However, the online talk value and visibility can work against the developer if the property is poorly-managed or has other issues, because these will come out as well.”

A number of mobile vendors (such as Korean kogi food trucks in Los Angeles) or micro-rental outdoor tenants (such as farmers’ markets) are using social media such as Twitter to communicate their location to customers.

Big box retail could coexist with and support independent, local businesses

A slight change in building design could create synergies between big-box and chain-store retail and small, independent businesses.

Big box retail located in urban infill tends to reinforce stand-alone, suburban development patterns. The design and development don’t consider the potential benefits or drawbacks of building design towards street life or how it could passively contribute to the revival of a downtown. The buildings often occupy large lots with considerable frontage, but the building is oriented towards the parking lot, presenting a curtain wall of brick or cinder block towards the street.

Instead of presenting a blank curtain wall towards the street, one solution would be to create incentives for providing small (200-300 square foot) spaces for local or independent retail. These storefronts could preserve the liveliness of the streetscape, strengthen the diversity of the local economy, and provide a way for chain retail and independent businesses to coexist. Lastly, it could provide a nominal rental income stream to the retailer.

Drawing a cue from the municipal incentives for green development, cities could offer similar incentives (expedited permitting, tax abatements, reduction in permit fees) to chain stores that incorporate small spaces for local businesses into their footprint.

Independent retail and local business are critical components of regional sustainability

Micro-rentals can provide benefits to a number of bottom lines. For property owners, they can reduce the financial risk and vacancy loss associated with losing a single anchor tenant. For entrepreneurs, they can provide low-cost and flexible space for start-up firms and boutique retail. And from a municipal and regional perspective, these local businesses expand and diversify

the local economic base, and can keep money circulating within the community rather than flowing out to national chains.

The consulting firm Civic Economics compared the economic effects of \$100 spent at a national chain and at a locally-owned store. Of the former, only \$13 remained in the local economy, while \$100 spent at a locally-owned business, generated \$45 for the local economy. This is a powerful reminder that true sustainability goes far beyond the energy efficiency measures that are currently dominating the discourse.

True sustainability encompasses making regions economically self-sufficient. There is also a difference between policy that makes an area more developable versus policy that makes it more desirable.

One way to increase the desirability of a region is to offer distinct reasons to visit or to relocate there. Too many places have no sense of place; they are effectively interchangeable. Boutique retail and independent restaurants give people reasons to visit a particular location — that, combined with the unique architecture, history, and natural surroundings contribute to a distinct experience different than what they could get in their own towns.

Constantine A. Valhouli is a principal with The Hammersmith Group. Special thanks to Jennifer Carter, Jennifer Crawford, John Galbraith, Daniel Greening, Maygen Kardash, Roy Krantz, Elizabeth Losch, Diantha Maya, Rob McCutcheon, James Mill, and Heather Szafran for their recommendations.

Some tiny spaces

10 Tables (597 Centre Street, Jamaica Plain, MA) and **12 Chairs** (56 MacDougal St., NYC) are tiny restaurants who have turned the lack of size from a drawback into the inspiration for the name and branding of the venue, making it an integral part of the experience.

124 Rabbit Club (124 MacDougal Street, NYC) makes excellent use of roughly 300 s.f. of space.

Baked by Melissa (529 Broadway, NYC) sells miniature cupcakes from a miniature storefront. It consists of little more than a pick-up window located off of the intersection of Broadway and Spring streets.

Bar Jamon (125 East 17th Street, NYC), is a 200 s.f. annex to Casa Mono, owned by Mario Batali, Joe Bastianich, and Andy Nusser.

DRV-IN (formerly at 139 Norfolk St., NYC) converted a roughly 200 s.f. space into a one-car drive in theater in Manhattan, complete with a vintage Ford Falcon and a pull-down movie screen.

Duffy's Love Shack, regarded as one of the best bars in the Caribbean, is a shack in a parking lot.

The Hallway (66A South Street, Jamaica Plain, MA, thehallwayjp.com) is the former storage area of a TV repair shop that has been converted into a compact art gallery.

Juicy Lucy has a miniature storefront (under 200 s.f.) in the East Village, and a miniature shack — more of a colorful garden shed — at the corner of First Avenue and First Street in NYC.

Laura Lobdell Jewelry (183 W 10th St., New York City) may be the smallest store in Manhattan, according to Time Out New York.

Pershing Square (90 East 42nd St., NYC) makes creative use of a valuable space with incredible foot traffic opposite Grand Central Station. The restaurant occupies the space beneath the bridge and overpass.



12 Chairs

<http://www.flickr.com/photos/wung/>



DRV-IN

About the author

Since 2004, Constantine A. Valhouli has served as principal of The Hammersmith Group, a strategy consulting firm focused on the intersection of real estate and technology. Hammersmith advises developers of sustainable and design-driven real estate projects, and consults to cities on reviving their historic downtowns. Hammersmith's work spans the planning and design phase to development and marketing of projects.

Constantine's work with Hammersmith includes some of the largest green developments in New England, one of the oldest towns in America, the largest private landholder in the only urban national park in the United States, and the governor of Massachusetts. His projects have received coverage in *Businessweek*, CNET, CNN/Money, NPR, and the *Wall Street Journal*, among others.

Constantine previously served as Director of Strategy for a sustainable real estate development company that did several high-profile adaptive reuse projects that incorporated some of the largest geothermal exchanges in New England. His career began in the Equity Research department of Morgan Stanley in New York City.

One of his white papers, "Valuing Green Buildings" is being taught at Stanford University and has been cited in Deloitte's *Sustainable Enterprise Report*. Valhouli has served as a panelist at industry conferences and the State Department, and has guest lectured at Columbia University, MIT, and New York University, among others.

Constantine has been quoted in articles for the Associated Press, CNBC, Developer, *Forbes*, *Los Angeles Times*, *Miami Herald*, *Newsweek*, *Silicon Alley Reporter*, *USA Today*, *US News & World Report*, and the *Washington Post*. His articles and op/eds have appeared in *Boston Business Journal*, *Boston Globe*, *Drwell*, *Fast Company*, *Fortune*, *Urban Land*, and the *Wall Street Journal*. He contributed to *Leadership Lessons from the Civil War* (Doubleday, 1999), written by Tom Wheeler (former head of the Cellular Telephone Industry Association and the Cable Television Industry Association) and Ron Nessen, former press secretary to President Gerald Ford.

Constantine has a deep interest in technology and media. He interned at the Washington Post during the launch of their online edition. He interned with early-stage fund Prospect Street Ventures, triple bottom line fund Dakai Ventures (social enterprise and technology), and Columbia's Digital Knowledge Ventures, the university's tech transfer division. Constantine's current research involves intelligent building systems, networked objects, and locative media.

He has directed or produced three award-winning documentary films that have received coverage in the *Glamour*, *New York Times*, *Oprah*, and *People*.

Constantine holds an MBA from Columbia Business School and an MA from Georgetown's Communication, Culture & Technology program. He is a Charles G. Koch Fellow with the Institute of Humane Studies, a think tank based in Washington, DC. He is a member of the Urban Land institute and the U.S. Green Building Council.