Where to go!

Which workplace option is right for you?

Coworking, Spec Suite, Turnkey, or TI allowance?

Summary

In this document, we will examine four of the most common lease options when considering a new office space:

1. **Coworking**
2. **Spec Suite**
3. **Turnkey**
4. **Tenant Improvement Allowance**

Will you go for something that is move-in ready, let your new landlord build it for you, or take the reins and control the project yourself? We'll share insights to equip you with the information needed to make the decision that best fits your schedule, budget, business goals, and where you are in the journey.

> Coworking works well for companies that need space fast, don't know how long they will need space for, and don't want to worry about any details.
>
> Member, non-profit corporate real estate association

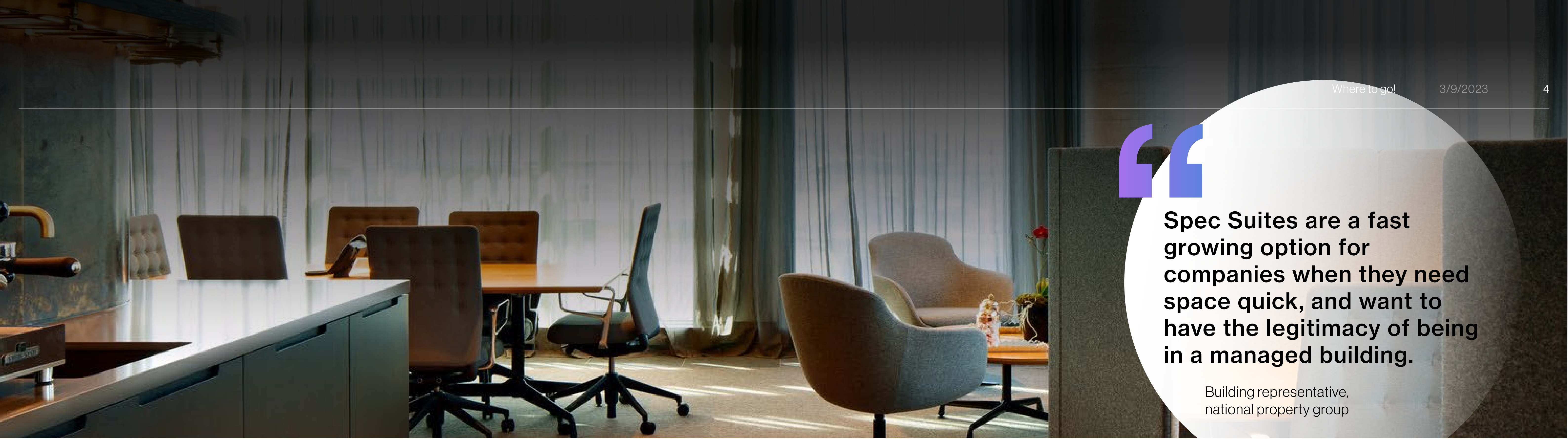
01

Coworking

Grow your momentum

Shared office space that is ready to move in and fully equipped. Low cost, minimal risk, and a stimulating community-focused environment.

For freelancers, small teams, and startups that need flexible workspace, coworking offers economy and community. Coworking spaces generally offer dedicated or on-demand desks and offices with shared access to amenities including conference rooms, lounges, office equipment, WIFI, reception, mail, and printing. It can be a highly adaptable solution in the early phases of expansion. There are many locations in major cities globally presenting a variety of unique working communities and amenity sets to suit your needs. Networking and business development opportunities often arise in coworking environments, and these shared synergies lead to new opportunities that are much more difficult to cultivate through other means. However, costs can vary widely for different configurations, and as your company's team structure and organizational processes become more specialized, it may be advantageous to consider spec suite, turnkey, and the tenant improvement allowance.



> Spec Suites are a fast growing option for companies when they need space quick, and want to have the legitimacy of being in a managed building.
>
> Building representative, national property group

02

Spec Suite

Legitimacy, fast.

Private pre-designed and built offices that have all furniture, fixture, and accommodations needed to achieve productivity fast. Low risk and everything your team needs to get to work.

When capital is limited, or you need to move in more quickly, spec suites can be a good option. This office format is how landlords are responding to the larger coworking movement. Spec suite leases are typically negotiated for shorter terms and are less risky for tenants and landlords. If you are seeking a short-term or temporary solution for your office space needs, a spec suite can be ideal while your organization runs lean and scales up to the next level of revenue and brand recognition. The prebuilt and move-in ready space includes many features that can lower your startup costs and minimize your transition time to the next new work environment.

While spec suites can be a great solution, they also have their downsides. The primary disadvantage is that the space is not designed specifically to suit the requirements of your business model or the culture of your organization. If your business involves in-person meetings with clients at your office, you may miss the opportunity to use your space as a branding tool and projection of your company's values. Although the space may include all of the standard FF&E (fixtures, furnishing, and equipment), they may not suit the tastes of your employees or support the distinct functions and working styles of your team.

Another problem that some spec suite tenants experience is a lack of privacy as hard-walled offices and acoustics can be challenging in the open office environment. Pre-designed spaces may present less visual and auditory separation, an issue that can interfere with productivity. Spec suites generally do not include the highest quality materials, finishes, or most advanced technology. These spaces are fitted out by the landlord or developer to appeal to the broadest tenant base, be the most flexible, minimize re-leasing expenses, and maximize profits.

> **We do a lot of Turnkey deals–when we manage the process, it is efficient and clients are able to get a fully customized space.**
>
> Assistant Vice President,
> global real estate company

03

Turnkey

Your design, within reason

A lease structure where the landlord manages, pays for, and implements the buildout. Low upfront costs and personalized space.

When you opt for a turnkey solution, you may enjoy the benefits of a space designed and built to suit your needs with less risk and capital outlay. You will have the opportunity to create a space that fits the working styles, culture, and personality of your company to a limited effect within the parameters of the Landlord's building standards and finishes. If you are a tech startup that specialized in a uniquely creative style, you can show it off with the imaginative way you structure your entry and the finishes you select. Although, depending on the structure of your lease, you may have to pay additional charges if the finishes requested exceed the building standard offered by the landlord. While you will not have the included FF&E as in a spec suite, you will also not have to share space or equipment with other tenants.

03

Turnkey

continued

Turnkey represents the middle-ground of risk between spec suites and TI allowances. With turnkey, you bring the design direction, and the landlord manages and funds the design and buildout. This can be a suitable arrangement if you do not want to dig into your cash flow or reserves upfront. Although you will still need to buy furniture and other equipment, and possibly fit out the space for specialized technology with your own funds, the landlord will handle the big expenses: materials, construction, and other costs.

Since the landlord or developer is fronting the cost –and bearing the risk– of building out your white-box space, you may need to sign a longer-term lease than you would with a spec suite. This approach is practical if you are planning to stay a little longer to focus on the growth of your business; however, if you are in a high-energy expansion phase and may need more space or amenities in the near future, it may be best to hold off on signing a long-term lease.

Flexibility and control of the design implementation are often the most significant downsides of turnkey projects. In a turnkey lease agreement, the landlord will typically manage the buildout to a specific pre-determined, negotiated budget, using a design firm and contractors from an internal list of preferred vendors with limited choices to you as a tenant. Developers normally have an in-house building architect that does all the design work.

While the tenant can control the design with turnkey, the project may be limited to a financial 'cap.' There is also the potential of higher long-term lease rates as the landlord will figure an additional amortized amount into the lease rate to cover construction costs–including a safer margin for unexpected costs and delays. To minimize project setbacks and litigation, timing and critical milestones are delineated in the workletter.

> **We were able to have better control throughout the process and our specific way of working was truly embodied in the final space–we have a space that staff are inspired to work in and that leadership is fully behind.**
>
> Director of real estate, global professional services firm

04

TI Allowance

You run the show

You design, pay for, and manage the buildout and the landlord reimburses you. More control over project design, timeline, and costs.

The TI allowance, or tenant improvement allowance, is another option which affords flexibility, customization, and control over your buildout. For organizations that need space that is specifically suited to their processes, supports their business goals and growth, leverages their brand to the maximum extent in the design, or want to ensure the use of sustainable design strategies and materials, the TI allowance model is fitting. When you have the additional capital (above the TI allowance) to pay for improvements upfront and can tolerate the associated risk, a TI allowance may work for you.

Another prominent benefit: you will have a team on your side with the experience and resources to manage the improvements and feel more confident signing a long-term lease to protect your investment in the build. The TI allowance presents less risk for your landlord and can yield additional leverage in your lease negotiations to get favorable terms on amenities, reimbursements, and scheduled rent increases.

04

TI Allowance

Continued

In this buildout model, you pay directly the architect and engineering team (and any additional subconsultants) and contractors (including construction and IT, AV, Security, etc.), and receive reimbursements from the landlord with progress payments at intervals throughout the agreed upon period. Keep in mind that you will also need to cover the cost of FF&E, technology, and relocation expenses not typically included in a TI allowance. In some cases, you may be able to soften upfront capital requirements by negotiating a cash allowance into the lease.

The TI allowance agreement offers more benefits, but also represents additional risk and project management duties. During the tenant buildout period, you typically do not pay rent. Rent commences upon a fixed date based on the anticipated completion of construction. If project delays occur, you may end up paying rent even though you are not occupying the space. This circumstance does present a risk and provides additional incentive for your team to closely monitor the project. Since you are taking the initial financial risk, and showing your commitment to the deal, you will have more leverage under an allowance to demand private access to the roof deck, for example, and other exclusive amenities.

There can be some additional fees associated with this type of agreement that are otherwise included in a turnkey. In a TI allowance, the landlord does not control the schedule or budget. To keep the project on track and ensure that it is completed on budget and before the rent commencement date, you will need to pay a construction manager (CM) fee to a firm that specializes in overseeing construction projects, and typically at a higher rate if there is an allowance. Extra contractual pressure is present to get the job done in a TI allowance arrangement with a fixed-date rent commencement.

If your general contractor and construction manager are one and the same, you will still pay your general contractor (GC) a CM fee. The additional oversight is a good measure, as the developer's or landlord's preferred in-house vendors working on other turnkey projects in the same structure can hinder your team's timely progress.

04

TI Allowance

Continued

Another consideration is your resources: if you do not have an internal real estate team and opt for a TI allowance (and turnkey to an extent as well), someone from your company needs to stay consistently involved and make decisions.

How do you get your desired terms for the deal on the table? The Work Letter. It details who owns what and where the responsibilities lie between tenant and landlord. It is a critical part of the deal and one where your lawyer and/or RE advisor is key and will likely spend much of their time. The work letter establishes how much the project will cost and who will pay, what the property has in it, who completes the build, and when you get to move in.

Once the lease is signed and the work letter goes into effect, all other prior terms and letters of intent (LOIs) are null and void. You may have comprehensive terms in the LOI, but not the work letter; the work letter deserves critical attention and needs to be ultra-detailed–something your broker, attorney, or project manager can help with.

Once the majority of the project is complete, depending on the nature of the work and municipality, you will need to apply for a temporary certificate of occupancy (TCO) with the local building authority that marks substantial completion and authorizes you to start moving furniture in. At this stage, there are several rent commencement arrangements that can happen depending on the buildout strategy: the rent starts on an agreed upon date (most typical in a TI allowance), or rent starts when a pre-determined point in the scope of work in reached (more common in turnkey projects).

The fixed-date rent commencement is less risky for the lessor (landlord) and may yield better terms and more leverage in negotiations for you, whereas the scope-of-work initiation favors the lessee (party paying rent) as you do not have to pay rent unless the project is sufficiently complete.

Your design and build partner or project manager will walk you through all the options so you can make informed decisions. This route can yield a space that is most aligned with your company goals and supports your growth drivers.

How can Unispace help?

Selecting Your Route and Balancing Risk

By now, you should have a good idea of which leasing strategies–or combination there of–may fit your company and are worth further research. The essential elements to consider are capital requirements, move-in time frame, risk/commitment, and how customized you need your space to be.

If you are not already working with a broker, it is a good time to ask for qualified referrals from your professional network. Look for an agent that specialized in tenant representation and has experience negotiating lease agreements that involve turnkey and TI allowance projects.

To move forward confidently and mitigate your risk, consider potential exit strategies–should you need to scale up sooner. You can buy out your lease or work with your representation to include rights to cancel stipulations in the contract. Weigh the costs and consequences of the terms of the lease before you sign. Your broker and design/construction team should be there to support you from the start of the process to ensure streamlined completion of your buildout and the protection of your interests.

More questions? Get in touch with one of our specialists today to learn more about your buildout options.

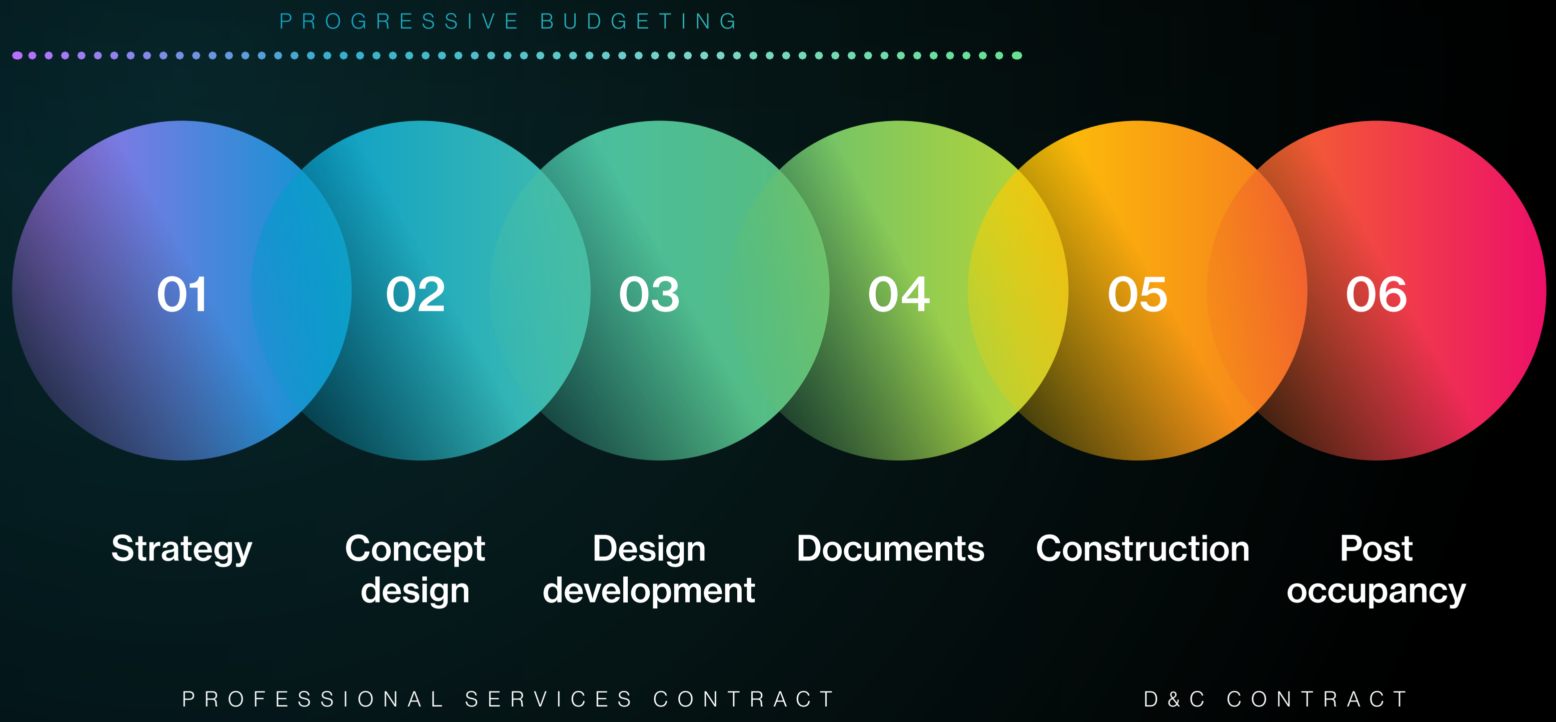
GET IN TOUCH

Which workplace option is right for you?

	Coworking	Spec Suite	Turnkey	TI Allowance	Unispace
Risk Level	Low	Low	Medium	Medium	Zero
Risk of Schedule Shift	Low	Medium	High	Low	Zero
Cost	Medium	Low	Medium	Varies	Varies
Value	Medium	Low	Medium	High	High
Personalization/Customization	Low	Low	Medium	High	High
Meaningful Brand	None	Low	Medium	High	High
Choice of Project Team/Consultants	None	None	Low	High	High
Your Negotiating Power	Low	Low	Low	High	High
Furniture Included?	Yes	Varies	None	None	Varies
Building Amenities	Yes	Varies	Varies	Varies	Varies
Need for Internal Staff Involvement	Low	Low	Medium	High	Low
Who Takes on Risk?	Landlord	Landlord	Tenant/Landlord	Tenant/Design Consultant	Unispace
Lease Length	Short-Term	Multi-Year	Multi-Year/LT	Long-Term	Varies

A better way.

While conventional workplace delivery demands unacceptable trade-offs, Unispace offers a better way. We seamlessly blend strategy, design, and delivery with smart technology to reduce risk, provide certainty, and deliver on average 25% faster for our clients – all without compromising on quality or performance.



Benefits of our combined process

- Faster process with a unified team
- Single point of accountability
- Quality design aligned to your vision
- Certainty through transfer of risk to Unispace
- Cost control and informed decision-making through progressive budgeting
- Risk mitigation with pre-construction oversight
- Long-lead items procured early

Glossary of Key Terms

Construction Manager (CM) Fee

A fee paid to a dedicated construction management (CM) company or a general contractor to oversee and coordinate the buildout. The CM ensures that the project is completed on time, within budget, and to the appropriate standards. Fees range from 10-15% of the project's anticipated costs.

Coworking

An option that allows smaller organizations and independent professionals to share office space with other companies. Allows sharing of office and administrative overhead and is generally the least expensive option and provides social opportunities and creative stimulation.

FF&E (Furniture, Fixtures, and Equipment)

These are the features typically included in coworking and spec suite office spaces. Spaces equipped with FF&Es are generally favorable when you are looking to minimize startup/move-in costs and you need to get started in a hurry.

Leasehold Improvement Allowance

Another term for tenant improvement allowance. It is agreement between you and the landlord that allows you to design and implement the buildout of the space with a partial or complete reimbursement by the landlord upon on completion.

Letter of Intent (LOI)

A non-binding statement issued by the lessor or buyer in a real estate transaction that outlines the proposed terms of the agreement. The LOI help both parties get a better idea of what the deal looks like and whether it may or may not work for them.

Rent Commencement Date

This is the date that you start paying rent and is typically after completion of improvements. This can be structured in a variety of ways, so it is important to work closely with your broker to secure the best terms.

Tenant Fixturing Period

This is the period during which your team completes construction of the improvements and you are not liable for rent. The end of this timeframe coincides with the rent commencement date.

Temporary Certificate of Occupancy (TCO)

Issued by your local building authority after significant completion of the project and the space is fit for occupancy. The TCO carries a limited validity period (typically 90 days) and requires renewal if the buildout is not complete by expiration. When the project is complete, the Certificate of Occupancy (CO) is issued after inspection.

Whitebox

A commercial real estate and construction term that refers to the state of a space before tenant improvements. Derived from the plain appearance of space without wall, ceiling, or flooring finishes. Vanilla shell is a common variation of the term.

Work Letter

A statement prepared by both parties' attorneys that specifies the terms, features, and timeline of the buildout. It can either be a standalone document or included as an addendum to the lease agreement.