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THE INCUBATOR BOOM

By: Shamit Saha, Director at Llenrock Group, LLC June 19, 2015

Since their creation in the late 1950s, business incubators have been helping entrepreneurs and small startup companies through their initial development stage. Initially providing affordable office space and business support services, business incubators have transformed over time to provide more than just tangible assets to young companies. As of 2013, the incubator company count surpassed 1,250 nationally and over 7,500 globally, a steep increase from 1980 in which the count reached only twelve. Overtime, incubator companies evolved and began to embrace the idea of providing shared facilities and office space to small companies, which encouraged networking and collaboration.

Increases in business incubators can be attributed to downsizing and attempts at cost cutting that have been occurring over the past few years. Office space utilization used to trend somewhere around 50%, but office space redesign and wireless technology usage has helped office utilization rates had reach up to 95% in 2013. Ten years ago average office space per employee averaged around 250 square feet, but this number had dropped to 195 square feet by 2013. Over the next decade, office demand is predicted to drop by about 20%; though this seems like a detrimental drop to the office real estate sector, it encourages the use of shared facilities such as incubator spaces.

At present, Silicon Valley is the hub for all things technology and draws entrepreneurs to the area with the hopes of creating successful startups. But Silicon Valley is not the only place to find startup companies in the United States; after a sharp decline in 2008, startup activity and entrepreneurial endeavors are regaining national popularity. According to the Kauffman National Startup Activity Index, which measures startup activity as a combination of (1) rate of new entrepreneurs, (2) opportunity share of new entrepreneurs, and (3) startup density, startup activity plummeted from an index of 0.76 in 2008 to -1.06 in 2014. In the past year, however, startup activity has been steadily increasing, reaching an index of -0.37, and looks to continue increasing in the following years.

The national growth of startups has helped to grow business incubators, which are not just restricted to the Silicon Valley market but are growing in prevalence in all major cities across the country; in a recent count, over 1,000 startup businesses reaped the benefits of New York City-supported incubators. These incubator spaces create financial benefits for startups that may be uncertain about their long-term position and provide them with future flexibility.

A recent global study done by Regus, a company that provides incubator real estate to small businesses and startups, found that over the last decade 62% of organizations were using some form of "alternative workplace strategy." These alternative workplace strategies now focus on integrating 3 factors:

- Design and technology
- Management and change process
- Physical settings

However, an increasing prevalence of incubator space is calling for a change in the industry, especially for incubators looking to stand out in its growing real estate segment. According to a recent Harvard Business Review article, incubators need to provide more than affordable office space and high-quality amenities; successful incubators need to commit to helping the client company find an appropriate market segment and a product that caters to this segment. The article identifies managerial training programs, business-skills counseling, network connections, flexible workspace and other intangibles to help clients reach their potential.

Wolf Commercial Real Estate
www.wolfcre.com

NJ OFFICE
951 Route 73 North | Suite D
Marlton, NJ 08053
P 856 857-6300 | F 856 283-3950

PA OFFICE
630 Freedom Business Center | 3rd Floor
King of Prussia, PA 19406
P 215 799 6900 | F 610 768 7701

Incubator companies like Regus have capitalized on the flexible workspace aspect of the incubator industry by providing both office and virtual cloud space, both complete with luxury amenities, to over two million clients in approximately 2,200 locations. Companies like WeWork take similar incubator office spaces and provide them with network connections by having multiple companies and startups share office space. This encourages companies to reach the goals spelled out in the HBR article by allowing them to share business skills and managerial tactics, and to create an overall broader network. Sharing resources in this shared office environment is beneficial from both a development and financial standpoint.

What these incubator spaces look to provide now is a "networked incubator," a term coined in 2000 by Harvard Business Review. These networked incubators provide value to startups by helping to create partnerships, aid in recruiting, and gain insight and information from outside experts. These collaborative, shared environments leave little room for permanent tenants, however what they do provide is permanent office space realty in a "think tank" environment for continually changing clients. In terms of the future of incubator space, venture capitalist Paul Singh looks to address the question of "where is there a blank canvas with which we can not only solve what [these] companies need next year, by giving them apartments across the street or whatever, but what they need in 10 years?" It seems that the future of incubator space looks to give tenants a temporary workplace with long-term, permanent benefits.

ABOUT THE AUTHOR: LLENROCK GROUP, LLC

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For more information on financing office acquisitions, please contact:

Shamit Saha, Director
Llenrock Group, LLC
215-501-7123
ssaha@llenrock.com

Llenrock Group, LLC

www.llenrock.com