BUSINESS INSIDER

Industrious merges subsidiary to create a new force in coworking

Daniel Geiger | Feb 12, 2024

The coworking firm Industrious avoided the fate of rivals WeWork and Knotel by partnering with landlords rather than leasing space from them – an approach that shielded it from the liability of paying rent when the office market began to tank during the pandemic.

Now, the New York based company wants to be a leader in another area of the workspace market, on-demand offices that can be rented even more flexibly by the day or hour.

Jamie Hodari, the 42-year-old founder and CEO of Industrious, likens the business to such à la carte consumer offerings as hourly rental cars and short-stay vacation homes.

"It's an Airbnb for workspace," Hodari told Business Insider.

In 2021, Industrious acquired the on-demand space provider Breather. Hodari said it has now merged that subsidiary with Deskpass, a Chicago-based competitor.

He declined to disclose the terms of the deal, the value of the new combined firm, or its revenue. A spokesman for Industrious said it would own a 40% stake in the merged subsidiary.

Breather and Deskpass – the Industrious spokesman says it is still considering whether to combine the brands – cater to a shifting landscape of work habits and tenant preferences.

Businesses are taking less space amid the enduring popularity of remote work. Some are finding, however, that they still require occasional offices for workers, special events, or meetings – a use case that falls outside of traditional coworking offerings, which generally ask clients to commit to a location for weeks or months at a time.

A portion of the workforce, meanwhile, is becoming more diffuse as companies recruit across the country and employees migrate to other locales because they can do their jobs remotely. On-demand platforms will enable businesses to temporarily take small spaces as needed for workers across a wide geography well outside the normal footprint of coworking providers.

"It's the combination of companies having more distributed ways of working, which really requires and benefits from these on-demand platforms, and companies getting rid of their mega-spaces," Hodari said.

Ailing offices provide abundant inventory for new platform

Giving additional lift to the business are growing vacancies across the office sector. Without other takers in hand, more landlords may seek to offer spaces through Breather and Deskpass, boosting the new platform's inventory. Tenants, meanwhile, who find they have excess space as some of their employees work from home a portion of the time, may seek to fill that surplus by offering it on demand.

The vacancy rate for office space nationally hit 18.6% at the end of 2023, according to data from CBRE– the highest level since 1992. About 771 million square feet, about twice the size of Manhattan's entire office market, sits empty nationally.

About 182.4 million square feet is additionally available nationally for sublease by tenants seeking to dispose of spaces, about double what was on the market just before the pandemic began, CBRE said.

"If the nicest law firm in town had a gorgeous boardroom that they know they're underutilizing and they want to be able to allow the public to book and use," the combined Breather and Deskpass could be the vehicle, Hodari said.

Hodari said the merger between the two providers would be complementary. Breather has excelled more in the business of leasing meeting rooms while Deskpass has a wider constellation of dedicated office users.

Together the two companies have an inventory of about 2,000 spaces across 200 markets in the US and about half a million users, according to Sam Rosen, the 38- year old CEO of Deskpass, who will continue to lead the new combined company.

"That's growing every day," said Rosen, who is based in Chicago.

How Industrious won the coworking war

Hodari has been an astute and resilient player in the coworking business. He founded Industrious in 2012 just as the flexible workspace business was beginning a trajectory of soaring growth and public awareness.

WeWork's former chief executive, Adam Neumann, approached him in 2017 with a hard-ball proposition: Sell its business to WeWork or be crushed by Neumann's market might.

Neither came to fruition. At the time, most coworking companies sought to rent space from landlords then sublease that to their clientele at a hefty markup. Hodari realized before some competitors that the business model could become financially perilous if user demand slowed and coworking companies were left on the hook for spaces they could not profitably fill.

He shifted much of Industrious's business to management agreements, in which the company would either forgo rent or pay a discounted rate and, in turn, split its proceeds with the landlord of the space.

"Everybody got hyped up and drank that Kool-Aid, and I'll be the first one to admit that I definitely got on that train a little bit," said Shlomo Silber, who was chief executive of the coworking brand Bond Collective, which had locations fall into bankruptcy last year. "That definitely hurt me in the Covid era.

"Silber said Industrious traded the temptation of fast growth for the cautious approach of landlord partnerships.

"It's very clear what happened is they kind of came out on top because of that," Silber said.

That structure allowed it to survive the opening months of the pandemic, when lockdowns radically diminished office attendance and tenants shed flexible workspaces. Hodari said that the business has since rebounded."

In 2020, everyone got rid of the flex spaces that they didn't want," Hodari said, adding: "2021, 2022, 2023 have been banner years. You've had rising adoption of it as tenants get out of long-term leasing."

From 2020 to 2022, Industrious sold stakes in its business to the global real estate services giant CBRE totaling $330 million in a collection of transactions that merged CBRE's own flexible workspace provider, called Hana, into Industrious's operations and gave CBRE a 42% ownership in the company.

Neither Hodari nor Rosen would disclose the value of the Breather and Deskpass merger, nor the company's combined revenue. Hodari did say that on-demand space has been a vibrant subsegment of the flexible workspace market that has grown dramatically."

We've grown collectively 10 times over the last two years," Hodari said of Breather. "Our hope and expectation is that, given how fast demand is rising, it will keep compounding growth north of 50% every year for years to come."