

OPTIMIZATION REPORT

PROFITABLE DOWNTOWN LOS ANGELES OFFICES WITH 50% OCCUPANCY



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OPPORTUNITY ANALYSIS

Los Angeles is one of the fastest growing coworking markets in the US and is a must-have city for any growing brand. This tier-1 city has favorable market conditions going forward as larger companies are migrating to serviced offices spaces in downtown and away from traditional commercial leases. This penthouse space is an exciting opportunity for any operator looking to quickly enter the market with a Class-A property and eliminate the unknowns of a new buildout. The space could also be a great opportunity for a first-time owner to learn the ropes of the industry with trained staff and a fully furnished space, minimizing the risk of starting a new business.

The 18,000 square foot space is currently profitable and has an executive suite-style floor plan with 60 offices. It is being sold at a favorable valuation that minimizes the risk while providing amazing earning potential. **The current space is profitable at only 50% occupancy and covers all of the fixed expenses of rent and staff, meaning that every additional dollar of revenue is nearly all profit.**

We believe the 50% occupancy level is due to the current owners lack of marketing skills or budget, and not the location or buildout. Existing coworking brands with a proven marketing strategy, or investors with a strong background in sales or marketing should be able to optimize and fill the space. Based on our calculations, **the space should be able to generate \$773,056 in profit and reduce the 2.9X multiple to 0.63x.**

Streamline and Simplify the Pricing

Coworking and executive suites have been disrupting the commercial real estate industry because of their easy to understand pricing and flexible lease terms. The current marketing and pricing for this location is complicated and the offices appear to be more expensive because of it. For example, the current pricing is based on a square foot multiplier that is almost always discounted 40% after negotiations. The office might be listed online at a very high price of \$6,000, but always rents for a market rate of \$3,600. Advertising high prices deters people from touring and seeing the 60 penthouse offices with access to amazing views of the city.

A new owner could streamline the pricing and advertise the actual lower price that is being paid by existing customers. A transparent and fair price, combined with a more seamless online experience will drive more traffic and lower vacancy without lowering margins.

CURRENT SCENARIO: Complicated pricing and marketing language.
RECOMMENDATION: Simplify pricing to represent the actual price and be more competitive.
PREDICTED GOAL: Generate up to \$639,522 more revenue a year.

Modernize with additional high-end design elements in a shared space layout

The location has a very efficient layout, but it comes at sacrificing a sense of openness that is expected at the entryway of premium shared office companies. It is recommended that the new owner eliminates five interior offices that have been difficult to rent near the kitchen area to provide a collaboration area, soft seating, and a few phone booths. This will create an open space for office workers to gather and add the extra amenities and buildout that office members are willing to pay a premium for.

CURRENT SCENARIO: The space has a lot of interior offices that make the space feel small.
RECOMMENDATION: Eliminate five interior offices to provide a sense of grandeur.
PREDICTED GOAL: Decrease vacancy by providing a more desirable environment that meets today's market expectations.

Focus on Meeting Room Revenue to Compliment Virtual Office Packages

The current owners have built strong pillars of revenue with the office rentals, parking and additional expenses, and virtual offices. The DenSwap team believes the space is ripe to build another pillar of revenue with the penthouse boardrooms in downtown LA, if it was easy to book and on all of the meeting room platforms. The large boardrooms in a class A building could generate bookings for a conservative rate of \$125 per hour or \$800 a day. Based on current market conditions, the boardrooms should be booked for 5 days a month and not affect the office members. This will generate \$48,000 a year in revenue without much additional cost.

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| CURRENT SCENARIO: | Meeting room revenue is insignificant and not advertised. |
| RECOMMENDATION: | Make meeting rooms easy to book online and leverage virtual office members to drive more bookings. |
| PREDICTED GOAL: | Generate \$48,000 a year in revenue |

PROFIT MODELING

Changes in Recurring Revenue and Expenses

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|-----------------------------------|------------------------|---------------------------|
| Revenue from increased occupancy: | + \$47,797/month | \$573,566/year |
| Revenue from boardroom rentals: | + \$4,000/month | \$48,000/year |
| Total Increase in Profit | +\$51,797/month | +\$621,566/year |
| Total Recurring Revenue | \$104,844/month | \$1,258,133/year |

One-time Expenses

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| Purchase price: | \$440,000 |
| Build-out for additional offices: | \$47,560 |
| Total Investment: | \$487,560 |

New Profit After Investments

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| Current Annualized Profit: | \$151,490 |
| Annualized Estimated Profit: | \$773,056 |
| New Multiple: | 0.63x |

NEXT STEPS

DenSwap is committed to helping coworking communities thrive by connecting buyers and sellers in the coworking/shared space market. To learn more about this coworking space or to contact the owner directly, visit our online marketplace at <https://www.denswap.com>. For buyer services including matchmaking, valuation, and space analysis, reach out to our account managers directly at hello@denwap.com.