



OCCUPIERS SIZE UP FLEXIBLE WORKSPACES

Colliers occupier survey illustrates current flexible workspace trends

Summary & Recommendations

Colliers expects demand from flexible workspace operators to account for about 18.0-20.0% of total gross leasing in 2019, from 7.0% in 2017. We believe that the market is transitioning to managed office space led by demand from enterprises.

- > 33.0% of occupiers are likely to take up flexible workspace in the next 24 months, while about 45.0% of the occupiers remain undecided about leasing space in flexible workspace centers over the next 24 months.
- > We advise banking and financial occupiers who have data privacy concerns to consider managed office space that will ensure confidentiality of their operations, and protection of their data.
- > We recommend flexible workspaces operators to invest in technology to provide services beyond requests like cashless payments and seat booking, among others, to differentiate themselves in this highly competitive segment.
- > We expect consolidation in the segment to garner pace from next year, as larger companies with financial discipline acquire smaller set-ups for inorganic growth.

India, flexible workspace statistics



Total flexible
workspace stock

**~17 million
sq ft**



~300

flexible workspace
operators



~3.5%

flexible workspace
stock as a proportion
of total commercial
real estate (CRE) stock

Source: Colliers International

Data as on July 2019

Flexible workspace is one of the fastest-growing occupier segments in India, led primarily by increased end-user interest. Colliers International conducted a survey and detailed interviews to understand occupiers' flexible workspace strategy over the next two years. The survey was conducted from June to August 2019, and solicited responses from over 50 occupiers, across diverse sectors including technology, banking, financial services & insurance (BFSI), e-commerce and manufacturing, among others.

Managed office space is leased office space that is occupied by a corporate client and fully managed by an operator. This operator today can be either a flexible workspace provider or developer. In managed office space, the tenant makes a monthly payment to an operator for lease costs (including but not limited to lease rent and maintenance charges), electricity charges, fit outs and fixtures, soft services, and facility management (including but not limited to housekeeping, consumables, security, manpower cost, front desk services and the annual maintenance costs of internal office equipment).

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Note: By enterprises, we refer to companies that have more than 500 full-time employees

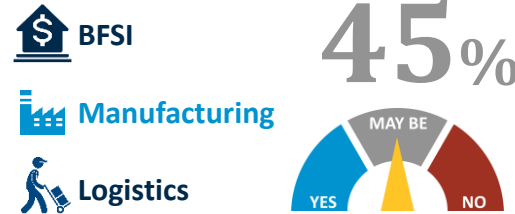
33.0% OF RESPONDENTS LIKELY TO LEASE FLEXIBLE WORKSPACE IN NEXT TWO YEARS

45.0% of the respondents are undecided about leasing flexible workspace in the next two years



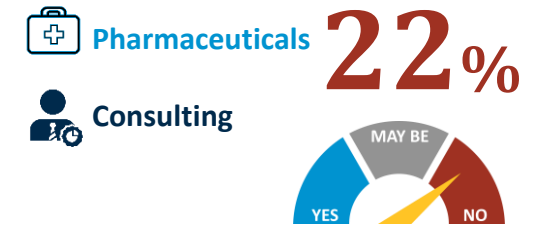
Reasons cited by occupiers:

- > Attractive location
- > Lower fixed costs



Reason cited by occupiers:

- > Contingent to occupiers' expansion plans



Reasons cited by occupiers:

- > Does not suit business needs
- > Does not provide privacy

About 33.0% of the occupiers surveyed by Colliers International said they are likely to take up space in a flexible workspace over the next 24 months, primarily for the host of benefits provided. About 45.0% of occupiers surveyed are uncertain about leasing in flexible workspaces, with the decision hinging on their expansion plans over the next two years.

The majority of occupiers said they will likely choose flexible workspaces when and if they have expansion needs over the next 24 months, while some are likely to take flexible workspace for specific teams or divisions.

Our detailed interviews with flexible workspace operators reveal that current demand in flexible workspace centers is being driven by enterprises which typically have more than 500 full-time employees. It has been recently reported that in India, WeWork garners 52.0% of its demand from enterprises¹, compared to 30.0% globally. Other operators, such as Smartworks, Awfis, Regus and IndiQube, are also increasingly deriving demand from enterprises.

Since the beginning of 2018, large enterprises have jumped onto the flexible workspace bandwagon, taking up about 18,200 seats, as per Colliers International. [Over 2017-H1 2019, we note that technology and e-commerce companies have been driving demand for flexible workspaces.](#)

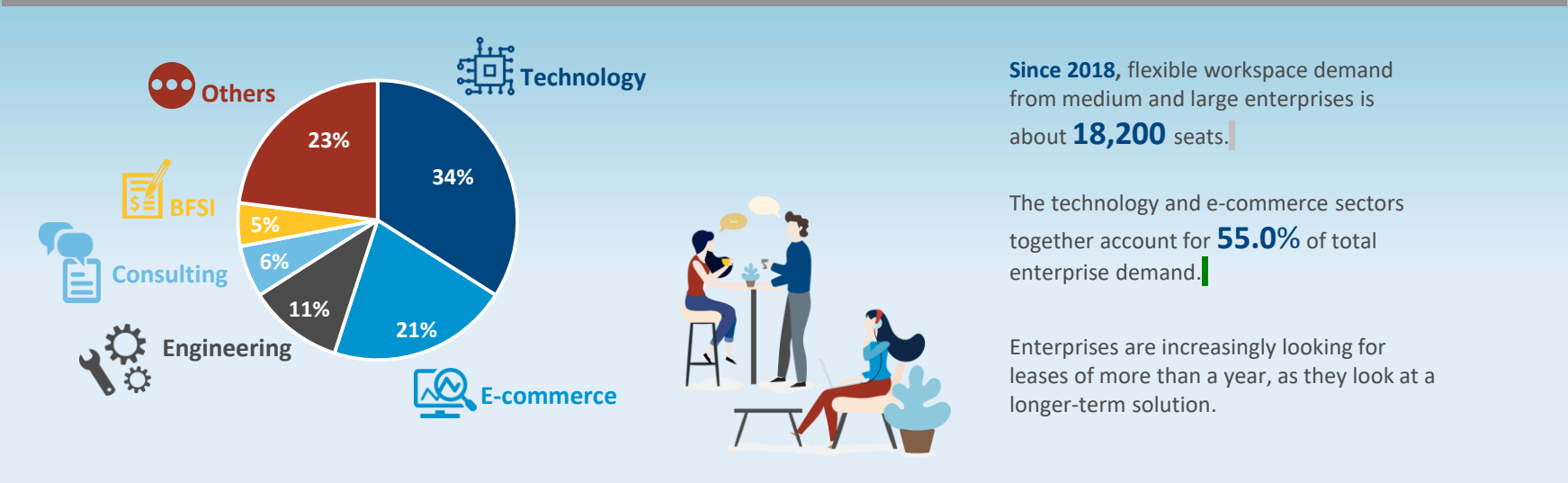
Technology companies are taking up space in flexible workspaces to house some of their smaller teams, while some companies are specifically leasing managed office space. Our conversations with e-commerce companies reveal that as their sector is dynamic, they prefer to take up space in flexible workspace centers as it allows them to effortlessly ramp-up or scale down their operations.

About 22.0% of the respondents said they are not likely to take up space in flexible workspace centers over the next 24 months. Over the course of detailed interviews with several occupiers, [we note that BFSI occupiers are uncertain about taking up space in flexible workspace centers, but in some instances have considered managed office space, namely in Bengaluru and Mumbai, especially for global in-house centers.](#) However, BFSI occupiers do view data privacy as the biggest challenges in pure-play flexible workspaces, and hence prefer managed office space.

Interestingly, few enterprises view flexible workspace as a temporary arrangement that provides flexibility to occupiers. We believe that this change in perception is leading to the growth of managed office spaces.

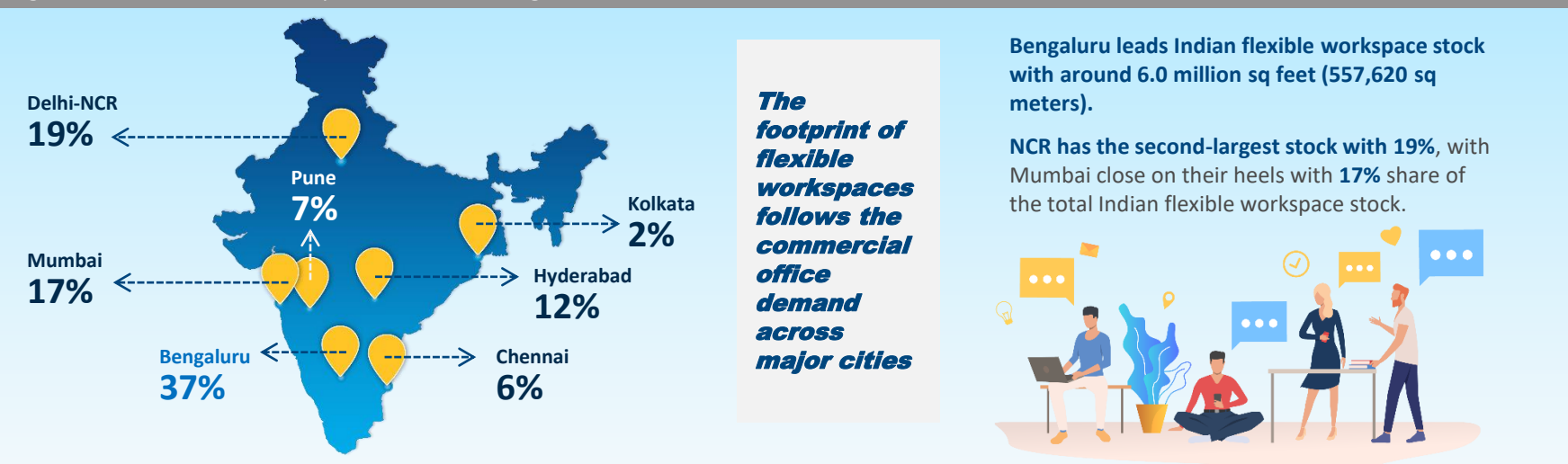
Source: Colliers International. ¹ Media reports.

Figure 1: India, increasing enterprise demand for flexible workspaces, 2017-H1 2019



Source: Colliers International. Note: Others refers to sectors such as pharmaceuticals, logistics, education.

Figure 2: India, flexible workspace stock mirroring office demand, H1 2019



Source: Colliers International. Note: data represents the Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune markets.

SHIFT IN OCCUPIERS' CRE OBJECTIVES

Increased focus on agility and employee wellness



Most important: Employee-friendly environment

Occupiers ranked it as the most important CRE objective to create an employee-friendly environment



Second priority: Cost management

Managing costs is the 2nd most important CRE objective



Third priority: Attractive location

A well-connected location emerged as the 3rd most important objective in our survey

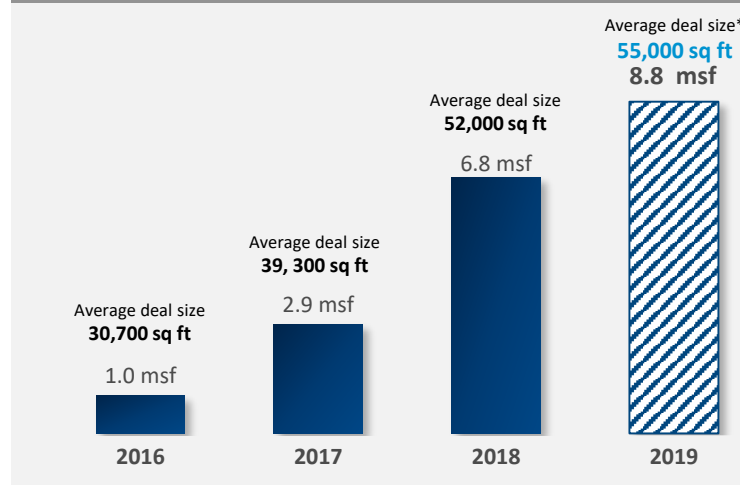
Source: Colliers International

According to our survey, occupiers ranked achieving an employee-friendly environment as the most important CRE objective, with cost management coming a close second.

With occupiers placing immense importance on creating a creative, activity-based workplace, flexible workspace operators have been filling the gap by offering well-designed offices, with a variety of fit-outs and design.

As a result of occupier demands, flexible workspace operators have been growing their portfolio, and expanding at a rapid pace. [We believe the flexible workspace market in India is transitioning to a higher level of services, reflecting demand from enterprise occupiers for more customized spaces and bespoke services.](#) Typically, enterprises prefer to lease managed office space over pure-play flexible workspaces due to the privacy that managed office space offers.

Figure 3: India, flexible workspace leasing trends, 2016-2019



In 2018, leasing by flexible workspace operators accounted for 14.0% of total commercial office leasing.

To cater to the rising demand from enterprises, flexible workspace operators are leasing larger spaces.

We note that the average size of a flexible workspace has increased 40.0% over two years to 55,000 sq feet (4,650 sq meters) in 2019, as operators take up large spaces and even entire buildings.

Source: Colliers International. *For H1 2019. Note: msf is million square feet. Data pertains to the top seven cities in India, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai, Pune. Average deal size refers to the average lease size of flexible workspace centers. Leasing quantum is mentioned above the bar in million sq feet.

OCCUPIERS' PREFERENCES

When selecting flexible workspace centers



Location:

Respondents ranked location as the most important factor while choosing a flexible workspace



Digital infrastructure: Facets such as bandwidth speed, and servers emerged as the 2nd most important aspect



Private spaces: Availability of personalised and private spaces emerged as the 3rd important factor

Source: Colliers International

Survey respondents ranked location as the top factor when considering various flexible workspace options. We believe this has led operators to lease even Grade B buildings in preferred micromarkets in cities like Bengaluru and Mumbai.

Consolidation on the cards

We believe consolidation will garner pace from 2020, as larger flexible workspace operators with financial discipline acquire smaller companies for inorganic growth, and to enter new locations and acquire scale. This should create an offering across various price-points, providing greater options to occupiers. We already observe consolidation beginning in the market, with Indian hospitality chain OYO² acquiring Gurgaon-based flexible workspace company, Innov8 in July 2019.

We are also noting that key operators are in talks with institutional investors for funding, which could result in closure of certain deals by end of 2019 or early 2020. In August 2019, two flexible workspace operators raised money to fund expansions. Homegrown operator Gowork³ raised USD53 million (INR375 crores) from US-based BlackRock and CLSA Capital Partner, and Awfis⁴ raised USD30 million (INR213 crores), from Indian PE player ChrysCapital.

Flexible workspace leasing to touch a new high in 2019

Leasing by flexible workspace operators in 2018 was the largest on record, and we expect this year's leasing to touch 8.8 million sq feet (817,840 sq meters) as operators rush to capture enterprise demand. We believe that leasing by flexible workspace operators to account for about 18-20% of total gross leasing in 2019, up from 7.0% in 2017.

Is the flexible workspace getting redefined, with managed office space gaining traction?

As operators chase large enterprise demand, we note that flexible workspace operators are using a hybrid model to offer flexible workspace options as well as managed office spaces, wherein they offer customized office space solutions to occupiers. Several flexible workspace operators such as WeWork, IndiQube, Smartworks to name a few have specialized services for enterprises. In fact, we also believe that some flexible workspace operators are emerging as the new landlords in cities like Bengaluru.

In 2019, developers such as Brigade Enterprises, Max Estates and Ascendas started offering higher-service flexible workspaces. [We expect more developers to follow suit, blurring the lines between flexible workspace, subleased space, and directly leased space.](#)

We note that top flexible workspace operators in the country are already offering mobile applications to its members for ease of operations. We recommend flexible workspace operators to invest in technology to provide services beyond requests like wallets for cashless payments and seat booking facilities, to differentiate themselves in this highly competitive segment.

For instance, Smartworks is the first flexible workspace operator in India to introduce an AI-enabled robot that helps in overall office management through services such as facial recognition, and send real-time updates to facilities managers based on requests received. As operators and developers attempt to increase market share, [we believe that amenities \(focused amenities that elevate the experience of the end user\), and adaptation of technology should prove to be game-changers, differentiating operators in this highly competitive segment.](#)

^{2,3,4}Media reports