

# Flexible Workspaces – Important Cogs in Hybrid Workplace Models

Flexible workspaces evolving to largely target corporate clients

## Insights & recommendations

The total flexible workspace stock in top six Indian cities is almost 30 million sq feet (2.8 million sq meters); 4.3% of total commercial office stock. We expect to see demand for well-located, high quality and efficient flexible workspaces to increase, resulting in their occupying 5.4% of the total office portfolio by 2022.

**Outlook for occupiers:** We expect many corporate occupiers to remain uncertain about long-term office leasing plans in 2021 and 2022 as they are still re-assessing their office space needs. **We recommend that they build a part of their office portfolio in flexible workspaces to avoid long-term capital expenditures, and to get more flexibility on their lease terms.**

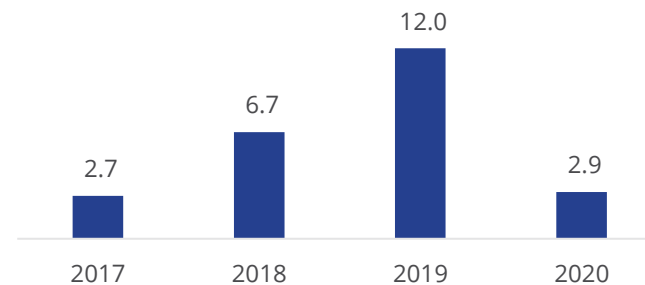
**Outlook for flexible workspace operators & landlords:** Demand for *managed* space is set to increase in 2021 and 2022, but we expect growth beyond to depend on the ability of operators and landlords to deliver quality workspaces at competitive costs. **We recommend flexible workspace operators to engage as managers for large spaces leased on a management fee and revenue share model with landlords.**



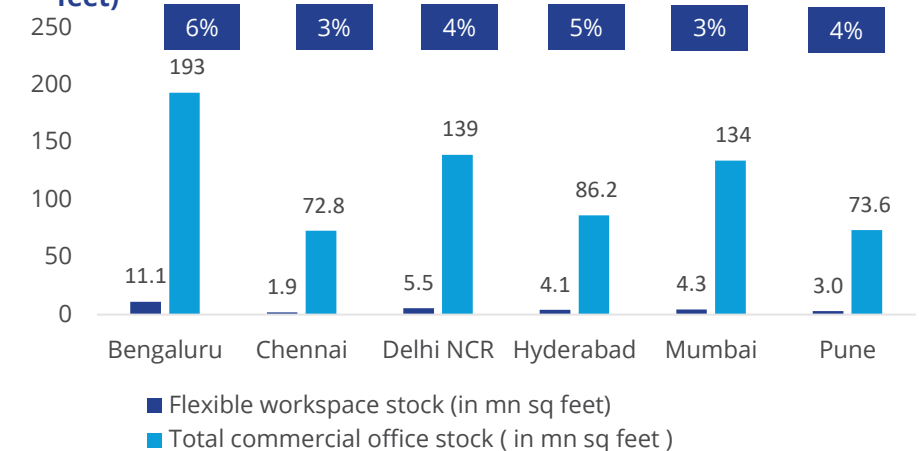
Flexible workspaces in India grew at a CAGR of 38% from 2017 to 2019, with many local and global operators entering the space, led by increased demand from corporate occupiers or enterprise clients. As of end-February 2021, the total flexible workspace stock stood at 30 million square feet (2.8 million square meters), across the top six Indian cities. Due to muted demand amid uncertain conditions, 2020 saw flexible workspace operators lease 2.9 million square feet (269,000 square meters) of space, down by 75.8% from 2019. This was about 8.5% of the total leasing recorded across the top six cities. Bengaluru, Hyderabad and Mumbai accounted for the bulk of transactions as some operators expanded their footprints, mainly in decentralized locations. Further, deals totalling around 1.7 million square feet (158,000 square meters), which were pre-committed or in the final stages, were cancelled across the top six cities.

As of March 2021, about 65% of the desks on offer are leased, across the top flexible workspace operators' portfolios. Though the bulk of this space is occupied by established corporates as opposed to freelancers or start-ups, and we think there is still scope for enterprise clients to take-up more flexible workspace as operators are offering attractive prices for large or multi-location deals. The leasing period is currently about one to two years as firms look at flexible workspaces as a temporary solution to accommodate their workforce until they finalize their expansion and footprints beyond 2023.

**Flexible workspace operator leasing, top six Indian cities (mn sq feet)**



**Proportion of flexible workspace stock, February 2021 (mn sq feet)**

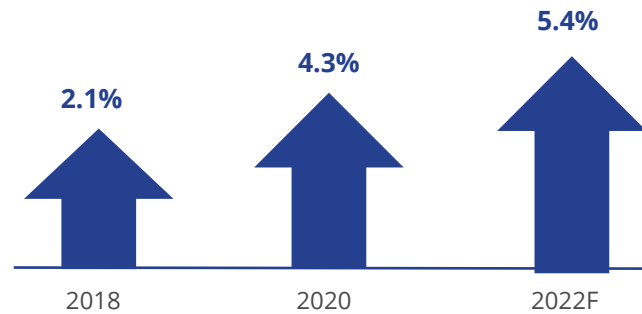


Source: Colliers

Note: The top six Indian cities include Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, and Pune

## Constrained growth of flexible workspaces

### Flexible workspace, % occupancy of total market



During 2021, we forecast that flexible workspace operators will lease around 3 million sq feet (0.28 million square meters), similar to 2020 unless larger and established operators sign up multiple deals for managing new offices on behalf of corporate clients. However, we could witness some new and interesting models emerge as can be seen from cases such as Ibis Hotels offering flexible workspaces across all their properties in India in 2020.

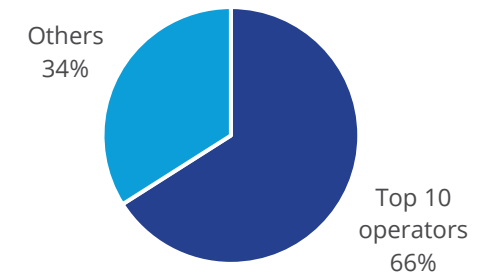
During 2020, the growth of flexible workspaces took a significant hit with operators curtailing their expansion plans, cancelling planned leases and some even surrendering spaces, due to muted demand resulting from COVID-19. We expect flexible workspace operators to continue to optimize their existing flexible workspace portfolios and focus on profitability of the existing centres during 2021. Further, we expect operators to focus on signing large enterprise-level deals and cut down on speculative centres that cater to freelancers, professionals, start-ups and entrepreneurs.

While expansion into new centres will likely be slow this year, we expect more partnerships between developers and operators that are aimed specifically at catering to corporate occupiers' needs for managed offices. For instance, Prestige Group has entered a revenue sharing alliance with flexible workspace provider Awfis. Thus, we recommend that flexible workspace operators engage in a management fee and revenue share model with landlords, acting as managers for enterprise clients. Under such arrangements, the focus should be on attracting large corporate clients to ensure profitability and tenure.

## Consolidation on the cards

The flexible workspace sector remains fragmented and is dominated by operators of various sizes in terms of number of centres and total area occupied. However, the top five operators in India currently operate nearly half of the total area occupied by flexible workspace operators in the Indian market, with the next five operators accounting for more than a third of total area occupied. We believe there will be consolidation, mainly through smaller fragmented operators facing acute cash flow challenges ceasing operations. This does not exclude takeovers of established operators as can be seen in the case of Brookfield Properties taking over CoWrks this year. Over the next three years, we expect flexible workspace operators to acquire smaller players to ensure they have the geographic range necessary to support their enterprise clients' distributed workforce.

### Market share of top flexible workspace operators, based on area occupied



Source: Colliers

Notes:

The top 10 operators include Awfis, CoWrks, Indiqube, Regus, Simpliworx, Smartworks, Tablespace, The Executive Centre, WeWork, and 91 Springboard. Market share calculated based on the total area occupied.

## Occupiers encouraged by flexible leases and low upfront capital costs

Enterprise clients have been increasingly incorporating flexible workspaces in their real estate portfolios over the last two years. During 2020, technology, and banking and financial services (BFSI) enterprises drove the bulk of enterprise flexible workspace deals. In the current scenario too, we recommend that occupiers lease some desks in flexible workspaces for 2021 and 2022 as part of their portfolio, to avoid long-term capital expenditures, and to get more flexibility on their lease terms until the time they have firmed their occupancy plans.

Further, enterprises are also driven by the desire to offer locational flexibility to some of their employees and functional departments. Thus, they are leasing desks in flexible workspaces closer to their employees' homes to provide ease of access and flexible work hours. During 2021, we expect technology companies to be at the forefront of demand, followed by BFSI and consulting companies. We expect demand from such companies to increase from the latter half of 2021.

As occupiers focus on portfolio optimization through 2022, we believe that many are exploring ways to shift teams into multiple, smaller managed spaces than their existing large, consolidated offices or use flexible workspaces as a stop-gap arrangement until they relocate to entirely new offices. We also expect occupiers to take up flexible workspaces near suburban residential catchments, providing their employees more conveniences and choices. Many of these existing centres are currently operating at 50-70% occupancy levels.

Operators are increasingly investing in workspace infrastructure like digital touchpoints, health and wellness facilities, hygiene and sanitization instruments. We recommend that operators maintain this focus on workplace hygiene and wellness standards, which should see greater enquiries from enterprise clients.

## Key enterprise deals across various cities

Year	City	Occupier/ Tenant	Flexible workspace operator	Number of seats
2020	Bengaluru	Myntra	Indiqube	4,800
2020	Bengaluru	Target	ANSR	2,000
2020	Bengaluru	Microsoft	Tablespace	1,000
2020	Chennai	Walmart	CoWrks	900
2020	Chennai	CRISIL	Smartworks	400
2020	Delhi NCR	GSK	WeWork	300
2020	Delhi NCR	FranConnect	WeWork	150
2020	Hyderabad	Moschip Technologies	Simpliwork	400
2020	Hyderabad	Mordor Intelligence	Awfis	350
2021	Mumbai	Eureka Outsourcing Solutions	EFC	450
2020	Mumbai	Fullerton	Smartworks	400
2021	Pune	Xoriant	Smartworks	1,800
2021	Pune	MAN Truck & Bus	Smartworks	350

Source: Colliers



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