CBRE RESEARCH

India Flexible Space Digest – H1 2019

INDIA'S FLEXIBLE SPACE MARKET IN H1 2019

~4.6 MN. SQ. FT. FLEXIBLE SPACE TAKE UP IN H1 2019

LEASING IN H1 2019 ROSE BY **52%** Y-O-Y BANGALORE, DELHI-NCR AND HYDERABAD WERE THE LEADING MARKETS

IN H1 2019, ALMOST **30%** OF THE LEASING BY FLEXIBLE SPACE OPERATORS TOOK PLACE IN **BANGALORE**.

Hybrid and managed spaces drove flexible space take up*:

HYBRID SPACES	
H1 2019	H1 2018
43%	**46%**

MANAGED SPACES	
H1 2019	H1 2018
31%	**23%**

BUSINESS CENTERS	
H1 2019	H1 2018
9%	**10%**

COWORKING	
H1 2019	H1 2018
17%	**21%**

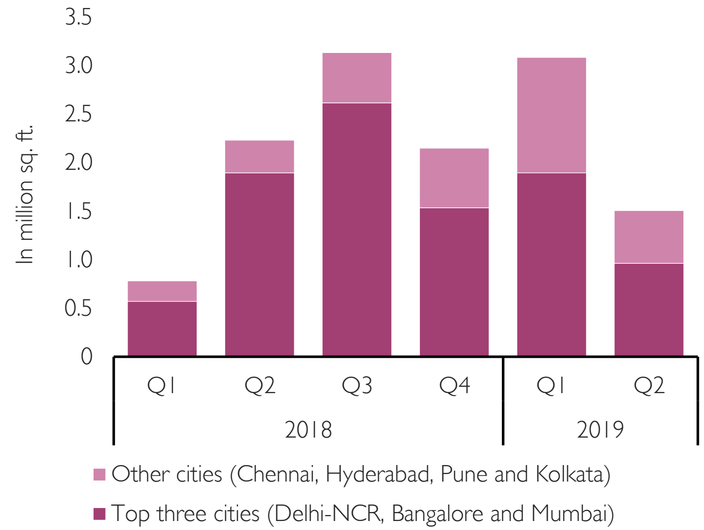
Table 1.0: Operators continued to lease medium- to large-sized spaces across cities in H1 2019

DEAL SIZE	H1 2018	H1 2019
< 20,000 sq. ft.	42%	26%
> 20,000 and < 100,000 sq. ft.	52%	61%
> 100,000 sq. ft.	6%	13%

Source: CBRE Research, H1 2019

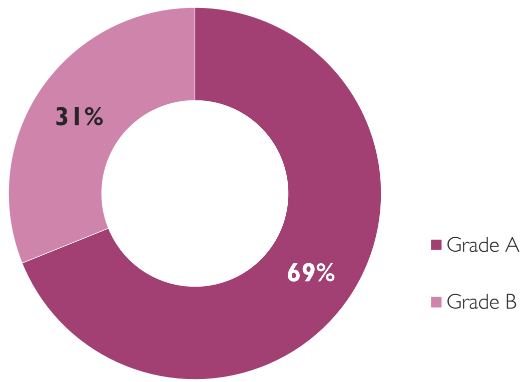
*Refer to annexure for definition

Figure 1.0: Quarterly flexible space leasing activity



Source: CBRE Research, H1 2019

Figure 2.0: Flexible space leasing activity by asset type in H1 2019

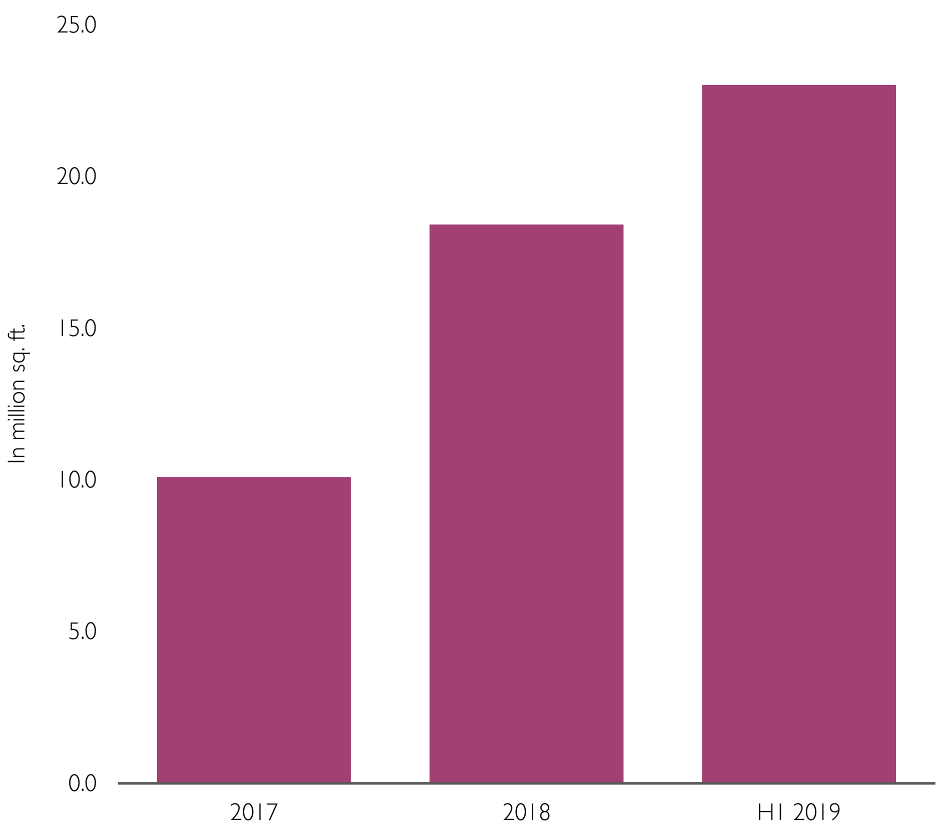


Source: CBRE Research, H1 2019

INDIA STANDS OUT IN APAC – CONSISTENT GROWTH AND LARGER DEAL SIZES

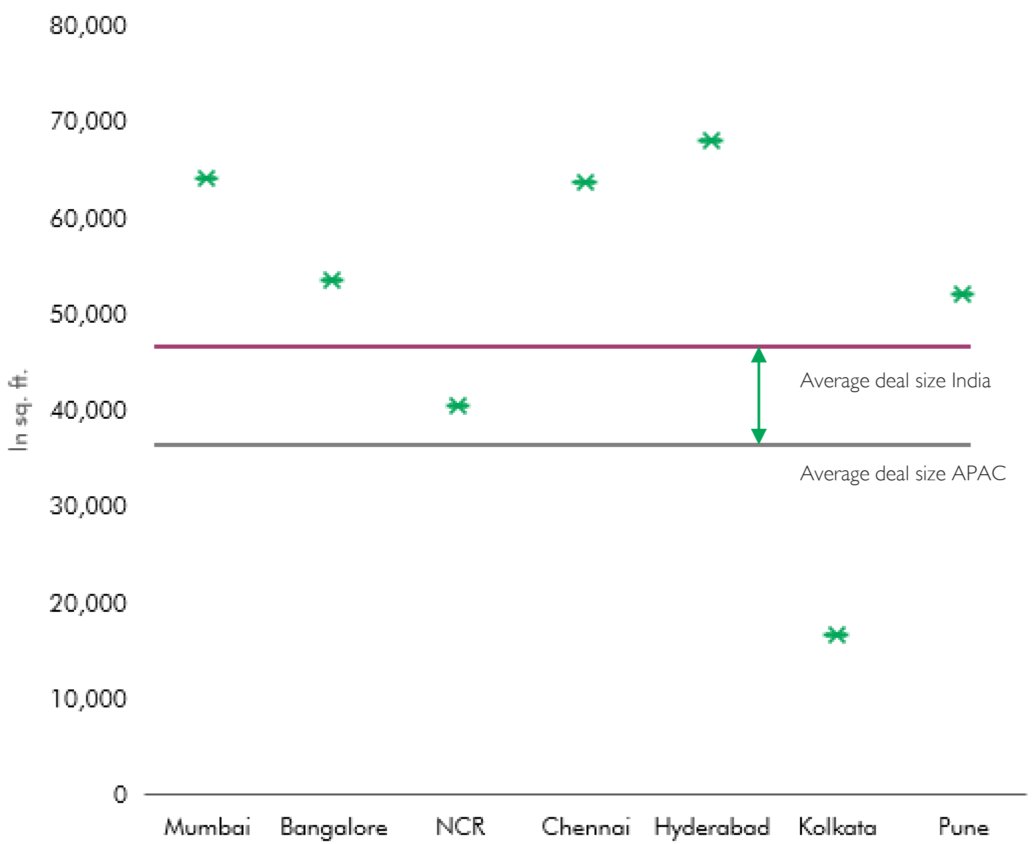
FLEXIBLE SPACE STOCK CROSSED **50*** MILLION SQ. FT. IN APAC, 20 MILLION SQ. FT. IN INDIA

Figure 3.0: India now one of the leading flexible space markets in APAC



Source: CBRE Research, H1 2019

Figure 4.0: India scores larger average deal sizes than APAC*



Source: CBRE Research, H1 2019

Note: Flexible space stock includes space take-up in both office and non-office spaces. Includes the following markets in APAC: Beijing, Shanghai, Shenzhen, Guangzhou, Hong Kong, Seoul, Tokyo, Singapore, HCMC, Hanoi, Bangkok, Delhi-NCR, Bangalore, Mumbai, Melbourne and Auckland.
*- As of Q1 2019

AVERAGE SEAT PRICES ACROSS CITIES

Table 2.0: Average quoted seat prices across coworking and managed spaces^

Average rental values – Coworking and managed spaces (INR / seat / month)		
	Core micro-markets*	Non-core micro-markets*
Delhi	12,000 - 22,000	11,000 - 27,000
Gurgaon	12,000 - 28,000	6,000 - 11,000
Noida	12,000 - 18,000	7,000 - 11,000
Bangalore	5,000 - 18,500	8,000 -15,000
Mumbai	10,000 - 40,000	7,000 - 25,000
Hyderabad	8,000 - 11,500	8,000 - 11,500
Chennai	11,000 - 14,000	9,000 - 12,000
Pune	7,000 - 15,000	-
Kolkata	7,000 - 9,000	-
Ahmedabad	-	8,000 - 11,000

Source: CBRE Research, H1 2019

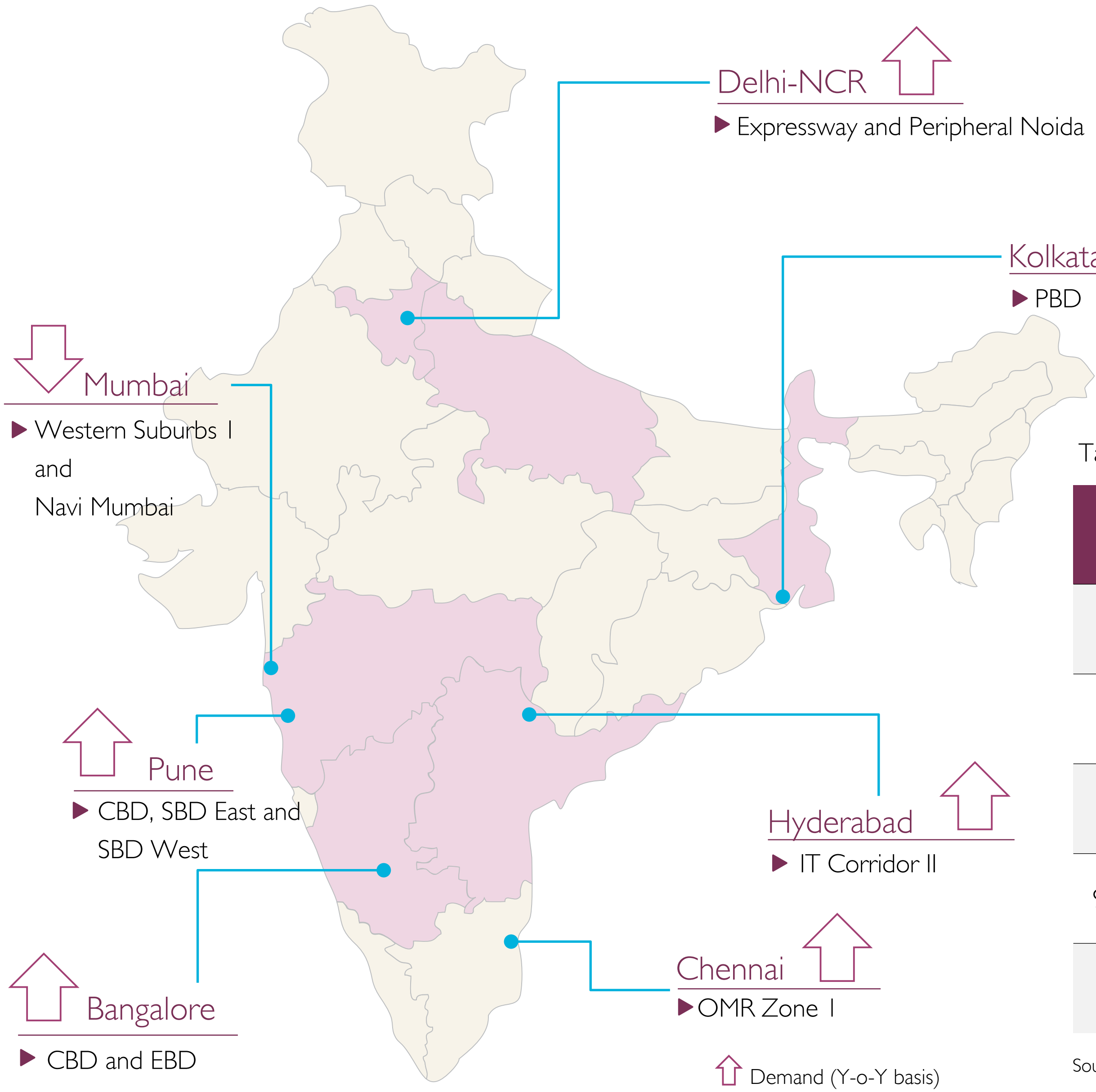
*^Refer to annexure for definitions

Table 3.0: Average quoted seat prices across business centers and hybrid spaces^

Average rental values - Business centers and hybrid spaces (INR / seat / month)		
	Core micro-markets*	Non-core micro-markets*
Delhi	18,000 - 50,000	14,000 - 30,000
Gurgaon	12,000 - 35,000	12,000 - 16,000
Noida	12,000 - 18,000	7,000 - 11,000
Bangalore	18,000 - 28,000	15,000 - 22,000
Mumbai	22,000 - 65,000	13,000 - 25,000
Hyderabad	14,000 - 20,000	13,000 - 16,000
Chennai	12,000 - 23,000	-
Pune	12,000 - 21,000	9,000 - 12,000
Kolkata	17,000 - 19,000	-
Ahmedabad	11,000 - 15,000	10,000 - 14,000

Source: CBRE Research, H1 2019

HOW DID THE CITIES PERFORM IN H1 2019?



⇧ Demand (Y-o-Y basis)

▶ Micro-markets driving demand

*Refer to annexure for definitions

Table 4.0: Prominent Transactions

Operator	Development Name	City	Area Leased (sq. ft.)
WeWork	Chromium	Mumbai	285,000
Smartworks	Maple Corporate	Delhi-NCR	270,000
Simpliwork	Jyothi Pinnacle	Hyderabad	213,300
91springboard	Graphics Tower	Delhi-NCR	100,000
Smartworks	Sargod Imperial	Bangalore	60,000

Source: CBRE Research, H1 2019

KEY TRENDS VISIBLE IN H1 2019

1 INCREASING OCCUPANCY RATE

This is primarily a result of established corporates leasing large-sized spaces in recent times, in order to provide ‘free addressing’ options as well as improve agility of their RE portfolios.

2 PENETRATION INTO TIER II CITIES

Operators have now turned their focus from the top seven cities to tier-II cities such as Jaipur, Goa, Chandigarh and Lucknow in the past few quarters.

3 NEW FUNDING SOURCES

We are witnessing rising instances of angel / PE funding as well as of operators joining hands with developers to operate on a revenue sharing model. An instance of funding during H1 2019 is of Workspace receiving INR 30 crore from SmartOwner Capital Growth Fund. We expect to see more creative funding avenues such as profit-sharing and management agreements going forward.

4 CUSTOMIZING ENTERPRISE SOLUTIONS

These have provided operators a competitive advantage as well as enabled them to retain tenants for a longer term.

OUTLOOK FOR H2 2019

Operators will **continue to take-up large-sized spaces** (> 100,000 sq. ft) across cities, **moving beyond the top cities** to cover other major markets and tier II cities as well. This will **continue to strengthen overall take-up** and average deal sizes.

Increasing demand for space in non-core micro-markets, coupled with paucity of space in core micro-markets, is likely to result in the former dominating space take-up going forward.

We expect demand for **managed office spaces** to strengthen in the coming few quarters and become almost **comparable to that of hybrid spaces.**

The **number of leases** and **quantum of space** in both **swing** (short-term) and **permanent** (medium- to long-term) spaces are likely to **increase** over the coming quarters.

Established corporates will continue to take-up more space than start-ups. On the other hand, operators would emphasize on maintaining healthy occupancy levels by providing **customized services** and **tech-enhanced** solutions.

Different ownerships, company structures, offerings, funding mechanisms and prices / scale are currently complicating M&A activity. As a result, **consolidation** is likely to occur at a **comparatively slower pace** in the country.

Given that the Indian flexible space market is one of the largest in APAC, we anticipate that this segment will remain **high on investor radar**.

ANNEXURE

Micro-market definitions*		
	Core micro-markets	Non-core micro-markets
Delhi	Central Delhi (Rani Jhansi Marg, Connaught Place, etc.), SBD 3 (Saket, Dwarka and Aerocity)	West Delhi, East Delhi, North Delhi, SBD 1 (Jasola District Center), SBD 2 (Nehru Place and Okhla)
Gurgaon	DLF Cybercity, Golf Course Road, MG Road, NH-8 (Before Rajiv Chowk) and Old Gurgaon	Extended Golf Course Road, NH-8 (Beyond Rajiv Chowk), Sohna Road, others
Noida	Main Noida (Sectors 1-18 and 25-32)	Expressway (Sectors 90-144), Peripheral Noida (Sectors 58-63)
Bangalore	CBD (Cunningham Road, Infantry Road, MG Road, etc.), EBD (CMH Road, Domlur, Koramangala, etc.), ORR (Marathahalli ORR and Sarjapur ORR)	NBD (Bellary Road, Banaswadi, Hebbal, etc.), PBD (Electronic City, EPIP, Sarjapur Road, Whitefield, etc.), SBD (Banashankari, Bannerghatta Road, JP Road, etc.)
Mumbai	BKC Periphery (Kurla, Kalina, Kalanagar, etc.), Central Mumbai 1 (Worli, Mahalakshmi and Prabhadevi), Central Mumbai 2 (Lower Parel, Parel, etc.), New CBD (BKC), Old CBD (Fort, Nariman Point, Churchgate, etc.)	Eastern Suburbs (Sion, Chembur, Ghatkopar, etc.), Navi Mumbai, (Vashi, Seawoods CBD, Belapur, etc.), Thane, Western Suburbs 1 (Vile Parle, Andheri East and West), Western Suburbs 2 (Jogeshwari, Goregaon (E) and Goregaon (W))
Hyderabad	CBD (Somajiguda, Banjara Hills, Begumpet, etc.), IT Corridor I (HITEC City and Madhapur), IT Corridor II (Gachibowli, Kondapur and Raidurg)	Extended IT Corridor (Financial District and Nanakramguda), PBD (Shamshabad, Pocharam, and Uppal), SBD (Banjara Hills and Jubilee Hills)
Chennai	CBD (Anna Salai, Egmore, etc.), Mount Poonamallee Road, Off CBD (Guindy), OMR Zone 1 (Perungudi and Taramani)	Ambattur, GST Road, OMR Zones 2 & 3 (Thoraipakkam, Sholinganallur and Navalur)
Pune	CBD (Bund Garden, Koregaon Park, etc.), SBD East (Hadaspur, Mundhwa, Viman Nagar, etc.), SBD Kharadi, SBD West (Aundh, Baner etc.)	Hinjewadi, SBD West (Bangalore Highway, Bavdhan, etc.), PBD – Others (Phursungi, Wakad, etc.)
Kolkata	CBD (AJC Bose Road, Camac street, etc.), SBD (Kasba, Ruby Connector, etc.), PBD (New Town, Rajarhat and Salt Lake Sector V)	-
Ahmedabad	CBD (Chimanlal Girdharlal Road and Ashram Road)	SBD (SG Road), PBD (Infocity and Gift City)

Flexible space operator classifications^	
Business Center	Formal environment with more private cabins / spaces; provide limited or no community activity
Coworking	On a membership or per desk basis, coworking offices provide a sociable working environment where users can network, collaborate and undertake business with each other with a substantial focus on start-ups, events and community
Managed Spaces	A managed office is a fully customized, furnished and serviced private or semi-private facility, maintained and operated by an operator for a client who agrees to pay a composite fee for its use
Hybrid Spaces	Fully serviced space consisting of a mix of private cabins, dedicated/open desks, meeting rooms etc. leased out to various clients on per workstation basis for flexible tenures; higher focus on enterprise clients and reasonable focus on community and design

Source: CBRE Research H1 2019

For more information about this regional major report, please contact:

RESEARCH

Abhinav Joshi
Head of Research, India
abhinav.joshi@cbre.co.in

Sachi Goel
Senior General Manager
sachi.goel@cbre.co.in

Raaj Thilak Raveendran
Deputy General Manager
raajthilak.raveendran@cbre.co.in

Ammu Ayswarya
Senior Research Analyst
ammuayswarya.murugesan@cbre.com

BUSINESS LINE

Ram Chandnani
Managing Director – A&T, India
Ram.Chandnani@cbre.co.in

Abbishek Sharma
Senior Director, A&T, India
Abbishek.sharma@cbre.co.in

Pulkit Bakshi
General Manager, A&T, India
Pulkit.bakshi@cbre.co.in

For more information regarding global research, please contact:

Richard Barkham, Ph.D., MRICS
Global Chief Economist & Head of Research
richard.barkham@cbre.com

Henry Chin, Ph.D.
Head of Research, Asia Pacific/ EMEA
henry.chin@cbre.com.hk

Neil Blake, Ph.D.
Head of Forecasting & Analytics, Global
neil.blake@cbre.com.

Spencer Levy
Chairman & Senior Economic Advisor, Americas Research
spencer.levy@cbre.com

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