

CBRE INDIA RESEARCH

THE FUTURE IS FLEX

MAY 2021

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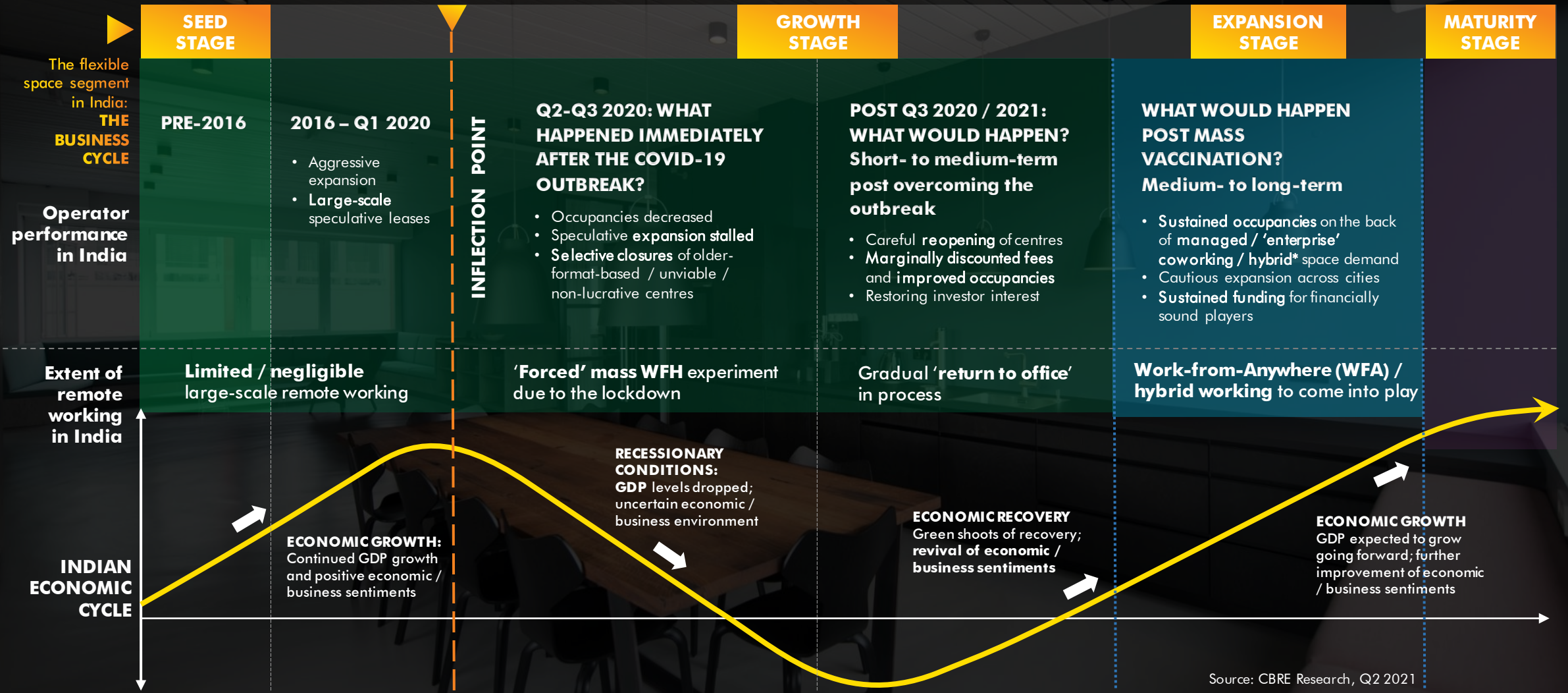
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THE FLEXIBLE SPACE SEGMENT IN INDIA

**THE STAKEHOLDERS'
VIEW**

INDIA: THE OPERATORS' VIEW



Infographics depicting the business and economic cycles are representative only. Color shades are representative of the business cycle of the flexible space segment in India. The inflection point refers to the COVID-19 outbreak in India.

*Please refer to page no. 11 for definitions

For the purpose of this analysis, CBRE Research has defined the following stages in the business cycle of the flexible space segment in India:

Development / seed stage: The industry is newly established with promising demand enhancers

Growth stage: Industry size to grow at an increasing rate; the industry has not yet witnessed any bottlenecks such as player consolidation, end of unsuccessful trials / pilot runs / market entries, macro-economic shocks, etc.

Expansion stage: Industry size to grow at a sustained increasing rate post overcoming aforesaid bottlenecks

Maturity stage: Industry size to grow at a declining rate

INDIA: THE OPERATORS' VIEW

From 'expansion' to 'efficiency'

◀ TILL Q1 2020 | POST Q1 2020 ▶

THEN



ENTRY / EXPANSION OF FLEX OPERATORS*

Both global and domestic players established their presence across top cities



CUSTOMIZED ENTERPRISE SOLUTIONS*

Increased focus on enterprise clients and managed office spaces



TRADITIONAL AGREEMENTS WITH OPERATORS*

Landlords were largely keen on signing traditional agreements with operators

FUTURE



NEW ARENAS FOR SUSTENANCE AND GROWTH

Focus on improving tenancy profile and profitability in operational centers through further amenitization, tech-enhancement and layout changes



HIGHER FOCUS ON CUSTOMIZED SOLUTIONS

Emphasis on higher flexibility and innovative solutions / deal structures such as reverse officing**, fit-outs as a service, pay-per-use among others



'CREATIVE' PARTNERSHIPS WITH LANDLORDS

Landlords would undertake partnerships or management agreements with operators post the COVID-19 outbreak, and are likely to be more open to structuring portfolio tie-ups, especially with domestic operators

*Themes still applicable in the future

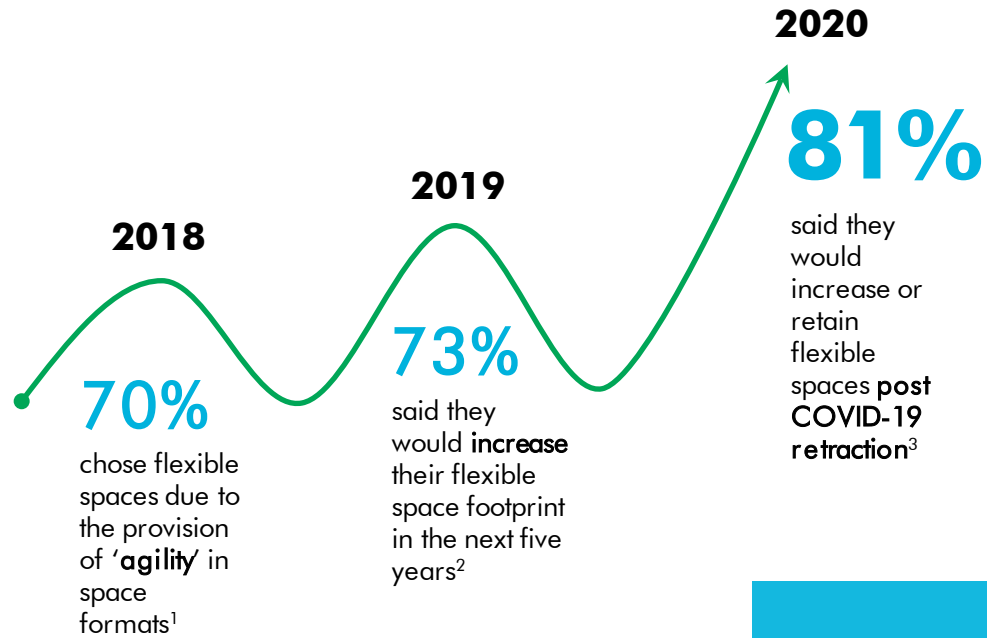
**Operators obtain the present lease from occupiers holding on to excess space and thereby offer managed solutions. The balance area is then marketed to other potential tenants.

Source: CBRE Research, Q2 2021

INDIA: THE OCCUPIERS' VIEW



Our office occupier survey respondents have been **increasingly positive** towards **flexible spaces** in India



81% in APAC said that they would **retain or increase** flexible spaces⁴

73% across the globe said that flexible spaces will be a part of their **long-term** RE strategy⁵

Post the COVID-19 outbreak, office occupiers in India had similar long-term positive preferences towards flexible spaces as those in APAC and the rest of the world



¹ India 'Flexible Space' Tenant Survey, Q3 2018

² India Office Occupier Survey 2019, Q1 2019

³ India Office Occupier Flash Survey, August 2020

⁴ Asia Pacific The Future of the Office Survey, October 2020

⁵ Global Office Occupier Sentiment Survey, The Future of the Office, July 2020

INDIA: THE OCCUPIERS' VIEW

From 'alternate' to 'definite'

◀ TILL Q1 2020 | POST Q1 2020 ▶

THEN



AUGMENTED PORTFOLIO AGILITY*

Flex spaces increasingly used for short- to medium-term RE capital-light needs



RISE OF MANAGED SPACES*

Enhanced demand for customized and private spaces



FLUIDITY OF THE WORKFORCE*

Advent of the 'gig' economy along with ease of commute initially drove flex demand

FUTURE



PORTFOLIO 'RE-OPTIMISATION'

Now integral to medium- to long-term, cost-effective and 'core + flex'** strategies for inculcating Work From Anywhere (WFA) adoption if required



LOCATION STRATEGIES

Possible dispersion towards multiple locations within / among cities via hub-and-spoke models in line with WFA



AUGMENTED PREFERENCE TOWARDS AGILITY

Occupiers would display an increased inclination towards agility / flexibility to meet RE requirements

*Themes still applicable in the future

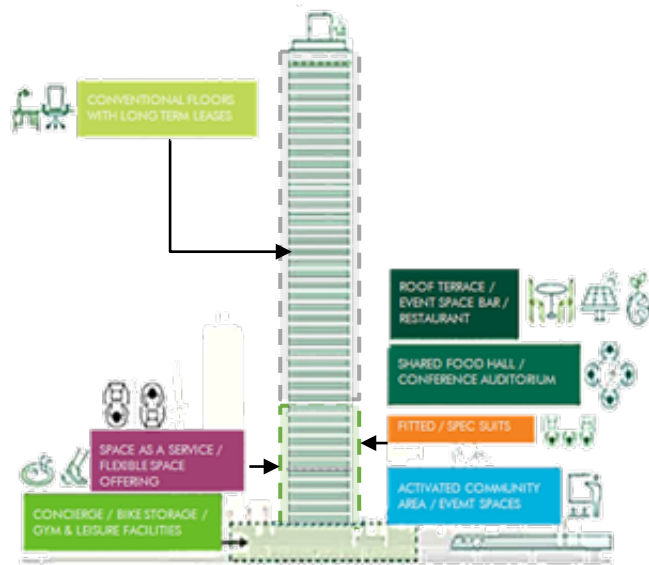
**Core here refers to traditional office space take-up

Source: CBRE Research, Q2 2021

INDIA: THE LANDLORDS' VIEW

Landlords would undertake the following routes in order to tap into the flexible space segment in India:

'FLEXIBLE' TENANT MIX*



The office asset of the future would involve landlords looking at **including flexible spaces in their tenant mix** so as to offer agility to existing tenants and improve building occupancies



ACCELERATE 'STRATEGIC' PARTNERSHIPS WITH OPERATORS**



TRADITIONAL LEASE

Traditional long-term lease agreement with the landlord

PARTNERSHIP AGREEMENT

Landlords and operators co-invest and share any profit and loss

MANAGEMENT AGREEMENT

Landlord provides capital and receives revenue while operator obtains management fee; no rent exchanged



CREATE 'OWN' BRANDS**



Part of an integrated suite of solutions for progressive landlords, who **design, build and operate** a flexible space offering under their own brand umbrella

Source: *CBRE's 'The Hotelization of Office Space: New Approaches to Future-proofing Commercial Portfolios', October 2019;

**CBRE's 2021 APAC Flexible Office Market Overview; CBRE Research, Q2 2021



INDIA: THE LANDLORDS' VIEW

From 'opportunistic' to 'value add'

◀ TILL Q1 2020 | POST Q1 2020 ▶

THEN



SPACE-AS-A-SERVICE*

Landlords started to include flexible spaces as part of their tenant mix, treating these operators as lessees rather than as partners



TRADITIONAL AGREEMENTS WITH OPERATORS*

Landlords were largely keen on signing traditional agreements with operators



CREATION OF 'OWN' BRANDS*

Landlords started to provide integrated solutions by designing, building and operating their own flexible space offerings

FUTURE



HOTELISATION OF OFFICE SPACE

To improve their product offering, landlords may want flexible spaces as part of their tenant mix along with an increased focus on 'amenitization' for F&B, living / convenience, meetings / events and wellness



'CREATIVE' PARTNERSHIPS WITH FLEX OPERATORS

Landlords would undertake partnerships or management agreements with operators post the COVID-19 outbreak, and are likely to be more open to structuring portfolio tie-ups, especially with domestic operators



VALUATION OF OFFICE SPACE

Landlords may strive to find the optimum share of flexible spaces as part of their portfolios with an eye on valuations⁶

*Themes still applicable in the future

**Core here refers to traditional office space take-up

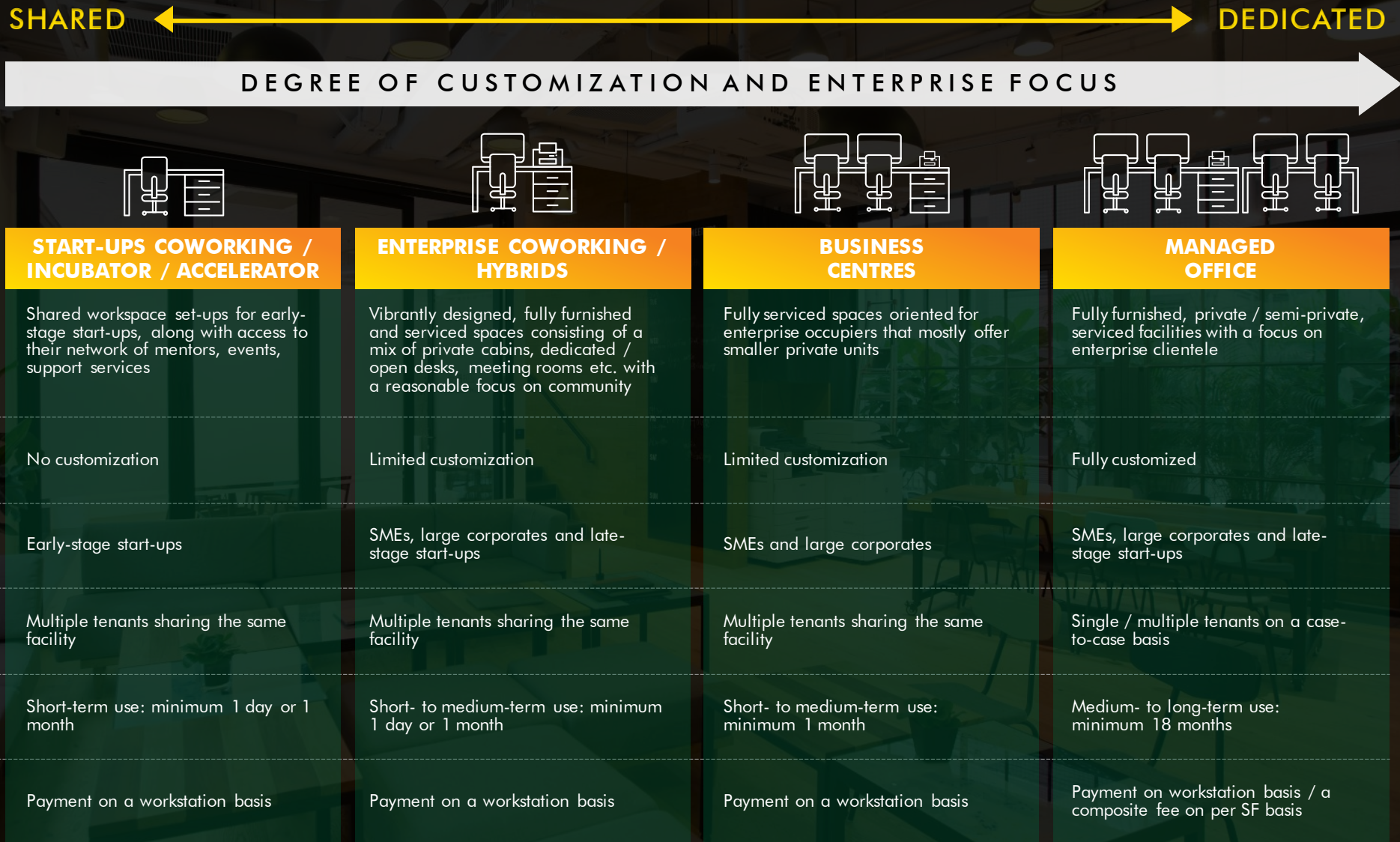
⁶ Source: CBRE's The Property Value Implications of Flexible Space, U.S., 2019; yet to be empirically tested in India
CBRE Research, Q2 2021



THE FLEXIBLE SPACE SEGMENT IN INDIA

THE WAY FORWARD

THE FLEXIBLE SPACE SEGMENT IN INDIA: AMIDST CONSTANT EVOLUTION



INDIA: FUTURE GROWTH DRIVERS FOR THE FLEXIBLE SPACE INDUSTRY



FLUIDITY OF THE WORKFORCE

To tackle **uncertainty of headcount projections** / phased growth + mobile teams / temporary workforce



PORTFOLIO RE-OPTIMISATION

In line with new '**core+flex**' strategies + location agnosticism through **WFA policies**



HUB-AND-SPOKE MODELS

For opening **satellite offices / locations** + reducing employee commute time



ENHANCED FINANCIAL GAINS

Risk mitigation via short-term **stop-gap measures** (including incubation spaces) + **capital-light deal structures** for medium- to long-term savings



INCREASED FLEXIBILITY OF DEAL STRUCTURES

Portfolio agility via flexibility of deal structures



RISING NUMBER OF 'STRATEGIC' PARTNERSHIPS / ACQUISITIONS

Between '**investor – operator**' / '**landlord – operator**' / '**occupier – operator**'

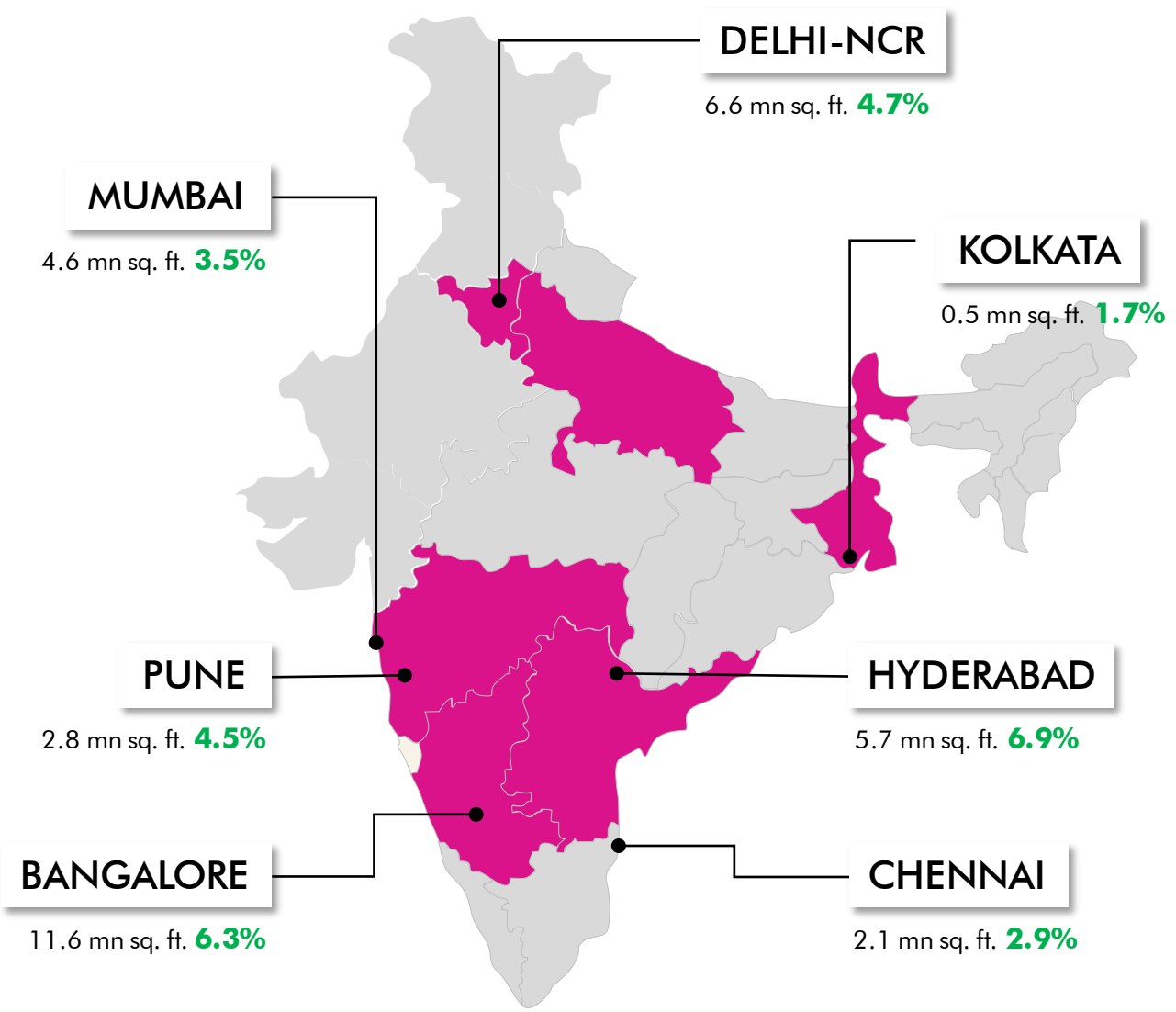


CAUTIOUS EXPANSION BY OPERATORS

Further expansion by operators within **tier I** and towards **tier II** cities in the **medium to long term**



INDIA: FLEX STOCK AND PENETRATION RATES



As of Q1 2021 | Flexible space stock in mn. sq. ft.
Flexible stock (including grade A and B) as a share of office stock

PROMINENT TRANSACTIONS

YEAR	OPERATOR	DEVELOPMENT NAME	CITY	AREA LEASED (SF)
2021	Smartworks	Paradigm	Mumbai	100,000
2020	The Executive Centre	Parinee Crescenzo	Mumbai	60,700
2020	Awfis	Rajapushpa Summit	Hyderabad	47,000
2020	Simpliwork	DLF Prime Towers	Delhi-NCR	44,300

CBRE: FLEXIBLE SPACE SERVICES

~36Mn SF

Flex Data Bank

~300

Operator Portfolio Records

140+

Operators Represented

150+

Closed Supply Deals

~7Mn SF

Supply Acquisition for Top Operators

700+

Occupier Clients Represented

1000+

Closed Demand Deals

75,000+

Workstations Leased

ADVISORY CAPABILITY

OCCUPIERS

Comprehensive Market Studies
BCP Strategies
Hub and Spoke Solutioning
Flex Portfolio Advisory
Operator Selection Advisory
Flex Variants Advisory
Flex Product Selection Advisory

OPERATORS

Comprehensive Market Studies
Expansion Strategy
Market Selection Strategy
Market Demand Analysis
Occupancy Trends/Analysis
Competition Analysis
Account Management
Pricing Strategy
Developer/Landlord Tie Ups

LANDLORDS

Market Advisory
Product Mix Advisory
Portfolio Analysis and Advisory
Partner Selection Services
Strategic Operator Partnerships
Deal Modelling
Transaction Structure Simulations

TRANSACTION CAPABILITY

OCCUPIERS

Fitted Out Transactions
Managed Office Deals
Swing Space Solutions
Turnkey Managed Deals
Reverse Officing
Reverse Consolidations
Hub & Spoke Structure
Zero Lock Deals
Work@Home Arrangements
Shift Working Solutions
Flexi Pass Arrangements
Work@Hotel Solutions

OPERATORS

Demand Backed Structures
Revenue Share
Profit Share Transactions
Management Contracts
Fitted Out Transactions
Managed Office Deals
Swing Space
Turnkey Managed Deals
Reverse Officing
Reverse Consolidations

LANDLORDS

Revenue Share
Profit Share
Management Contracts
Reverse Leasing
Fit out as a Service
Portfolio deal structuring

THE FUTURE IS FLEX

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CBRE RESEARCH

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