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CBRE INDIA RESEARCH

THE FUTURE OF FLEXIBLE WORKSPACES

AUGUST 2021

FOREWORD



Raj Menda,
Joint Chairman, FICCI Real Estate Committee &
Corporate Chairman, RMZ Corp

COVID -19 Pandemic is continuing to influence the businesses design in Commercial Real Estate Sector and has opened way for new business models that provide workplace flexibility, safety to employees and profitability through cost optimization.

Flexible workspace segment in India is amid rapid evolution and is no more confined to small businesses or start-ups only. It has garnered interest from large corporates, and they have gradually started to occupy a significant share of the Flex workspace pie. The flexibility coupled with superlative amenities and a community driven ecosystem are attracting occupiers of all sizes to co-working spaces.

While the concept has readily been accepted and adopted in the metros, it is the Tier II cities like Ahmedabad, Bhubaneshwar, Indore, Jaipur, Kochi etc. that will be the growth multipliers for Flexible Workspace Ecosystem in India. While these cities are beginning to warm up to this new concept, a more detailed analysis is pertinent for better understanding the growth for this segment.

Further, as India starts opening in a calibrated manner with the support of increased Vaccination coverage, this is the most opportune and right time to understand the trends and models evolving within the Flexible Workspace segment to take informed business decisions.

I am happy that FICCI and CBRE has collaborated to bring out this report, which attempt to provide insight into the Future of Flexible workspaces.

I am sure that the all the stakeholders including developers, operators, occupiers, service providers and government will find the contents of the report useful.



Anshuman Magazine
Chairman & CEO,
India, South East Asia, Middle East & Africa,
CBRE

The Covid-19 pandemic influenced the way businesses operate and their overall strategies. Businesses are evaluating new working models that keep workplace flexibility at the centre, balancing employee wellbeing and business profitability. The most noticeable development has been the introduction of a hybrid workforce across various space options, including flexible offices. This report covers the findings of its recent 'Flex Operator Survey' in India and future real estate strategies of key stakeholders. For this survey, CBRE's India Research and A&T (Advisory and Transaction Services) Occupier Group conducted interviews with leading flexible space operators in the country in July 2021.

Flexible space operators are likely to prioritize expansion with a focus on efficiency. We believe operators will focus on improving tenant profile and profitability in operational centres by further adding amenities, focusing on tech enhancement and layout changes. There will also be a higher focus on customized solutions, including an emphasis on higher flexibility, innovative solutions, and deal structures such as reverse officing, fit-outs as a service, pay-per-use models, and all-access products, among others.

Traditional landlord-operator lease partnerships are also giving way to a range of business models that change risk and reward dynamics. Although traditional leases remain most prevalent, partnerships and management agreements continue to grow in popularity. The rising demand for flexible offices is also due to the need for more experience-based workplaces including tech-enabled services and health & wellness offerings.

What is clear is that the way in which occupiers use flexible space continues to evolve and would in turn be an impetus for the rise of office demand over the long-term.



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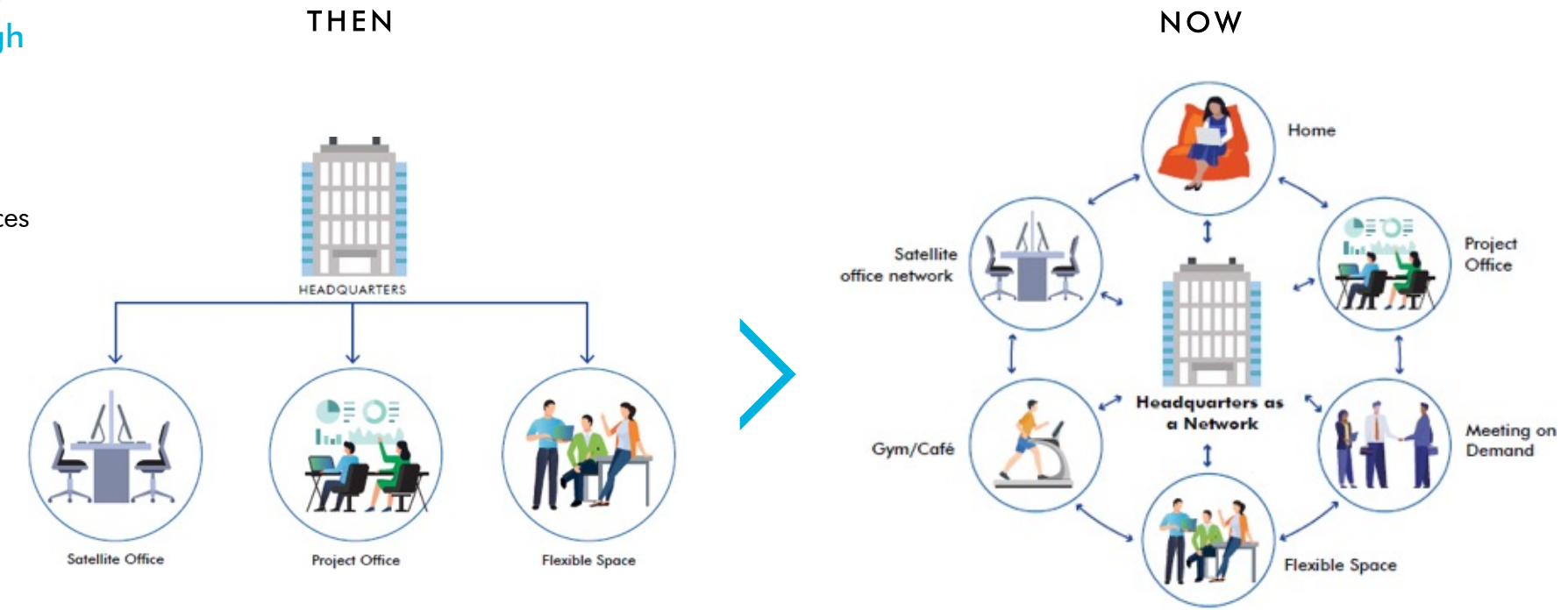
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THE FUTURE OF OFFICE: A HYBRID WORKFORCE NETWORK

The continued proliferation of flexible offices is expected to further boost the number of options available in terms of working style post COVID-19. In the coming years, corporations would now look to include not only standard leased space in their office portfolios, but also a variety of other formats, including but not limited to flexible offices. This is likely to enable employees to choose workplaces that match their lifestyles and the nature of their jobs – a trend CBRE believes would lead to a geographic dispersion of office locations.

Agility in the flexible space industry is expected through the following:

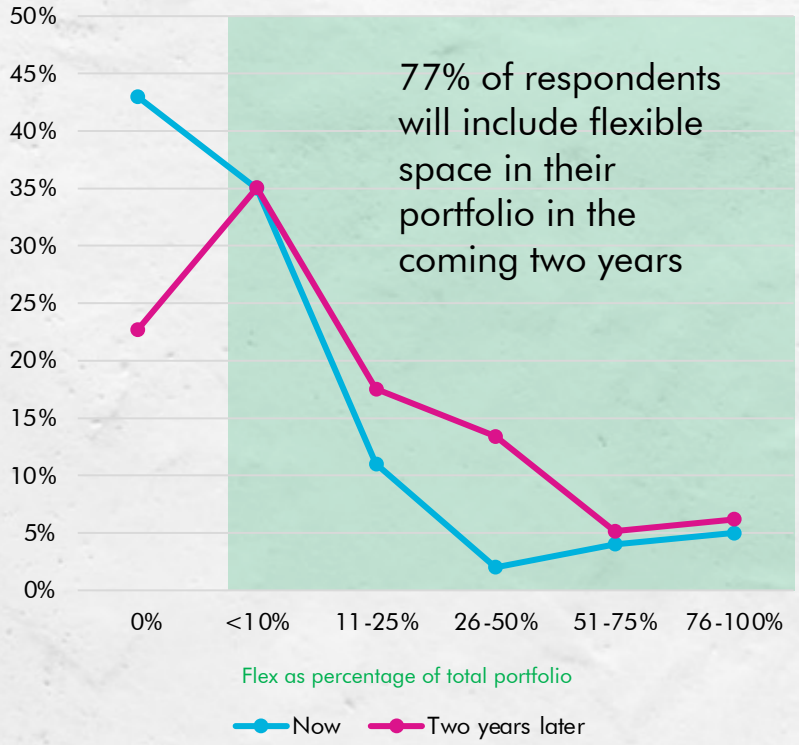
1) Restructuring deals
2) Rethinking workplace design
3) Enhancing value-added services



Source: The Future of Office and Industrial & Logistics Real Estate in India, October 2020; CBRE Research, Q3 2021

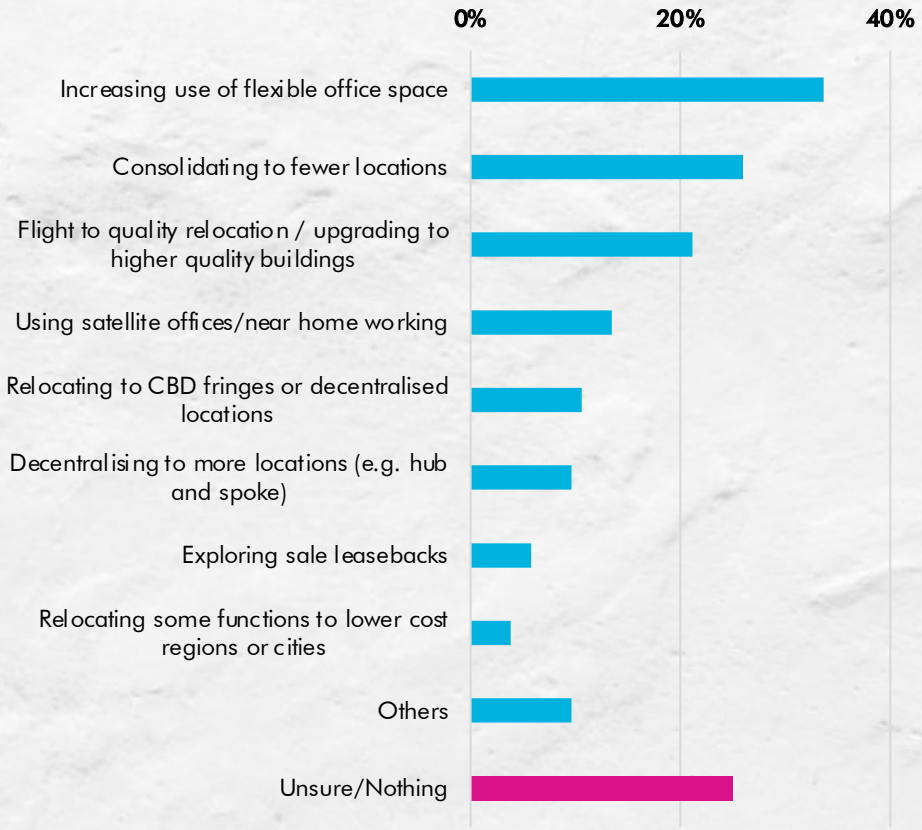
A LARGER PORTION OF OFFICE PORTFOLIOS TO COMPRISE OF FLEXIBLE SPACES; TOP OCCUPIER STRATEGY ACROSS APAC

What percentage of your portfolio is comprised of flexible office space, both as of now and two years from now?



N = 109 respondents

What portfolio strategies are you currently pursuing or planning to pursue?



Note: Multiple options applied

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Source: CBRE APAC Future of Office Survey, July 2021; CBRE Research, Q3 2021

CBRE INDIA FLEX OPERATOR SURVEY | EXECUTIVE SUMMARY

CHANGES POST COVID-19

100%

Providing / evolving **user-centric tech / apps** and **health & safety offerings**

100%

Undertaking **hygiene checks, health / thermal screening** and improving **air filtration**

82%

Were open to exploring **traditional agreements** and **rental partnerships** to expand

WHAT DOES THE FUTURE HOLD?

100%

Would **increase their portfolios by more than 30%** over the next two-three years

64%

To **increase average centre size** going forward

55%

To **expand** in both leading **tier I** and **tier II cities** in the medium to long term

64%

Are open to accommodating occupiers' requests for **rental relief adjustments, extended rent-free periods,** etc. to provide flexibility

57%

To **increase managed office** and **hybrid space** offerings

27%

To **change space designs and formats** post COVID-19

Note: All questions were administered from the perspective of the aftermath of COVID-19 in India

Insights on this page are from CBRE's current India Flex Operator Survey; Source: CBRE Research, Q3 2021



THE CONSTANT EVOLUTION OF FLEXIBLE SPACES IN INDIA

THE FLEXIBLE SPACE SEGMENT IN INDIA: AMIDST CONSTANT EVOLUTION

The flexible space industry continues to evolve constantly to meet dynamic occupier demands. For the same, CBRE continues to evolve the definition of 'hybrid'.

SHARED ⟵ ⟶ DEDICATED

DEGREE OF CUSTOMIZATION AND ENTERPRISE FOCUS

PRE-BUILT, SHARED AND SERVICED SPACES



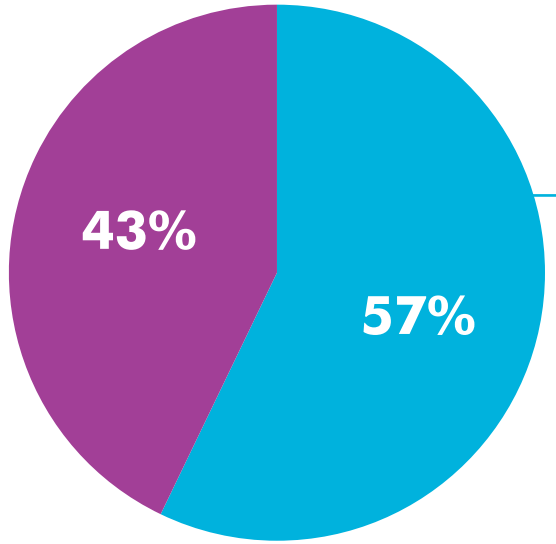
	START-UPS COWORKING / INCUBATOR / ACCELERATOR	ENTERPRISE COWORKING	BUSINESS CENTRES	HYBRID SPACES	MANAGED OFFICES
PRODUCTS / SERVICE MIX	Shared workspace set-ups for early-stage start-ups, along with access to their network of mentors, events, support services	Vibrantly designed, fully furnished and serviced spaces consisting of a mix of private cabins, dedicated / open desks, meeting rooms etc. with a reasonable focus on community	Fully serviced spaces oriented for enterprise occupiers that mostly offer smaller private units	Centres that allocate majority of their area to provide managed office offerings to occupiers while the balance is retained for enterprise coworking solutions	Fully furnished, private / semi-private, serviced facilities with a focus on enterprise clientele
CUSTOMIZATION	Limited customization	Limited customization	Limited customization	Requirement specific	Fully customized
TENANT PROFILE	Early-stage start-ups	SMEs, large corporates and late-stage start-ups	SMEs and large corporates	SMEs, large corporates and late-stage start-ups	SMEs, large corporates and late-stage start-ups
SPACE USAGE	Multiple tenants sharing the same facility	Multiple tenants sharing the same facility	Multiple tenants sharing the same facility	Single / multiple tenants on a case-to-case basis	Single / multiple tenants on a case-to-case basis
TENURE	Short-term use: minimum 1 day or 1 month	Short- to medium-term use: minimum 1 day or 1 month	Short- to medium-term use: minimum 1 month	Requirement specific	Medium- to long-term use: minimum 18 months
MEMBERSHIP FEES	Payment on a workstation basis	Payment on a workstation basis	Payment on a workstation basis	Payment on workstation basis / a composite fee on per sq. ft. basis	Payment on workstation basis / a composite fee on per SF basis

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Source: CBRE Research, Q3 2021

INCREASED FOCUS ON ENTERPRISES POST COVID-19

If offering multiple types of spaces, how would your firm's product-mix strategy change?



57% said they are likely to increase the share of enterprise occupiers over start-ups coworking due to the latter's shorter lease tenures and associated risks*

57% are also expected to increase the share of managed offices as part of their portfolios*

*The graph excludes pure-play managed office operators who would not change their offering going forward.
Only hybrid space operators considered.

Insights on this page are from CBRE's current India Flex Operator Survey; Source: CBRE Research, Q3 2021

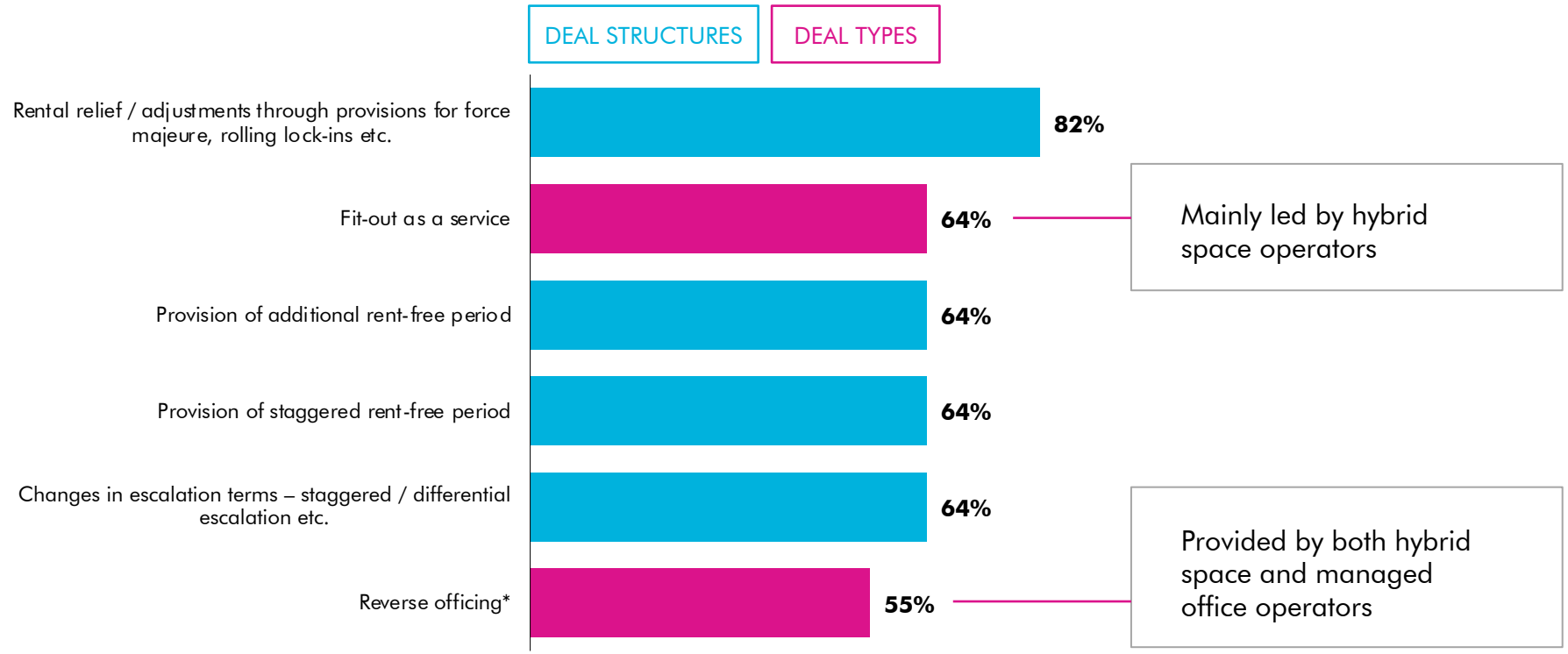
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INCREASED AGILITY IN THE FLEXIBLE SPACE INDUSTRY IN INDIA

INNOVATIVE DEAL STRUCTURES / TYPES TO ACCOMMODATE EVOLVING OCCUPIER DEMAND

What are the possible accommodations that your firm can give to existing / prospective occupiers via deal structures / types?

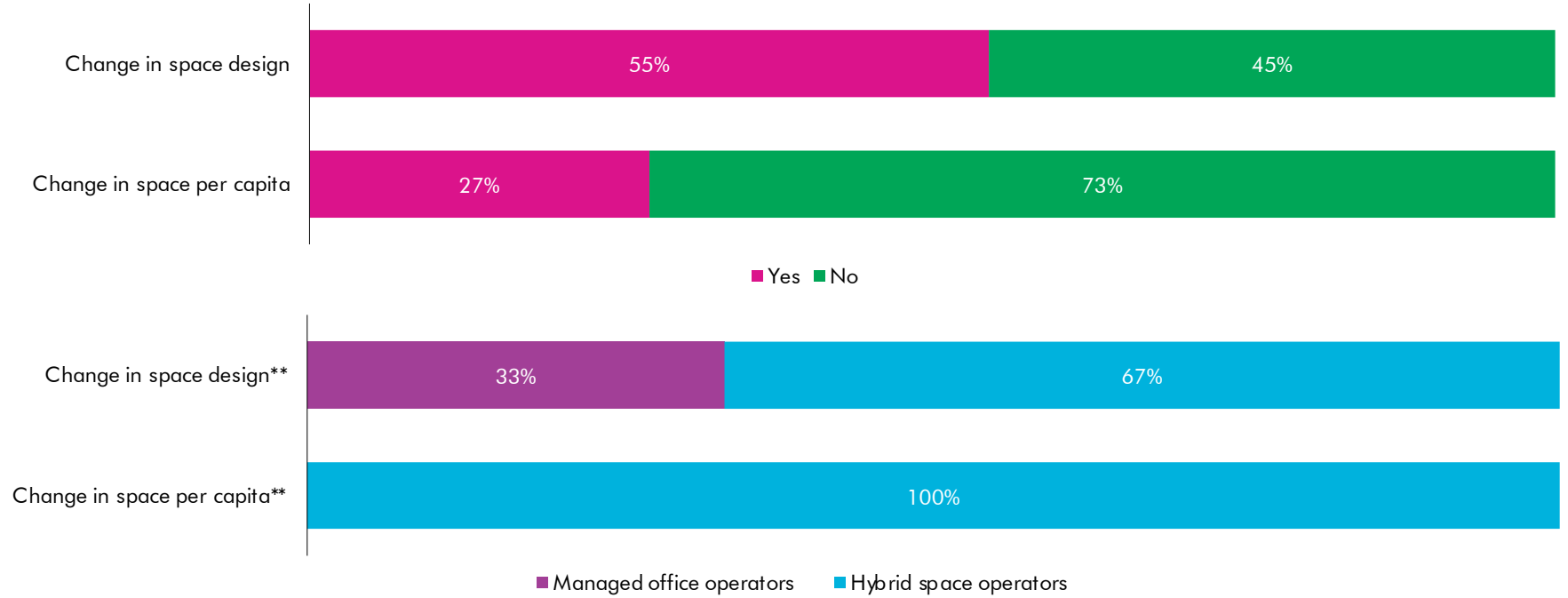


*Operators obtain the present lease from occupiers holding on to excess space and thereby offer managed office solutions. The balance area is then marketed to other potential tenants.

Insights on this page are from CBRE's current India Flex Operator Survey;
Source: CBRE Research, Q3 2021

POTENTIAL CHANGES IN SPACE DESIGNS* / SPACE PER CAPITA TO BE OCCUPIER-LED

What kind of changes does your firm plan to carry out in the existing space design?



Space designs to change mainly due to occupiers' increasing need for collaborative spaces and safe distancing

*Indicates change in share of collaborative / private spaces only
**The analysis represents only those respondents who indicated a change in space designs / formats.

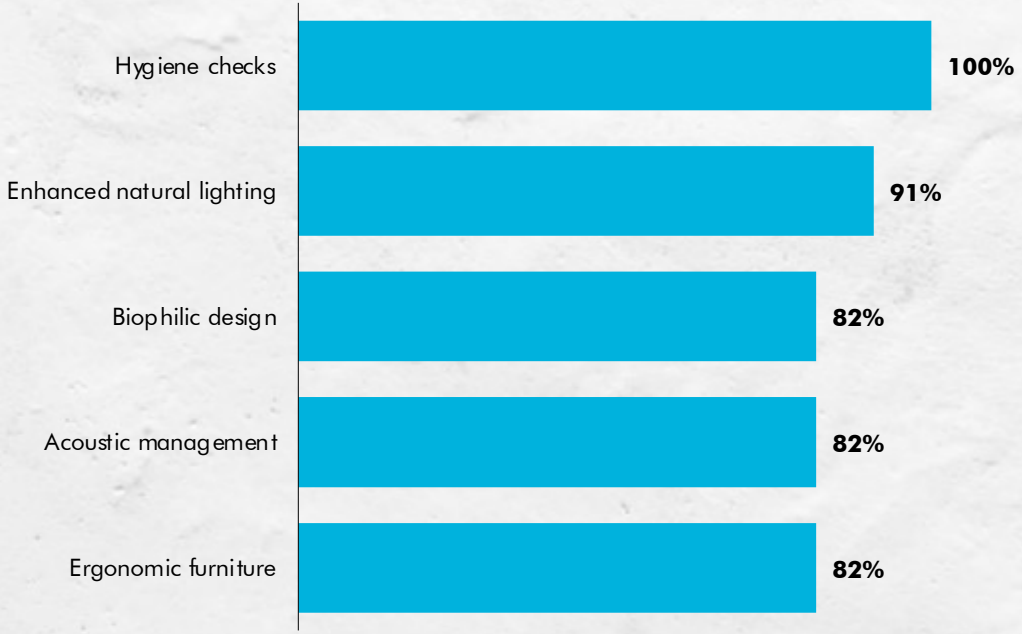
Insights on this page are from CBRE's current India Flex Operator Survey;
Source: CBRE Research, Q3 2021



VALUE-ADDED SERVICES REDEFINING THE GAME

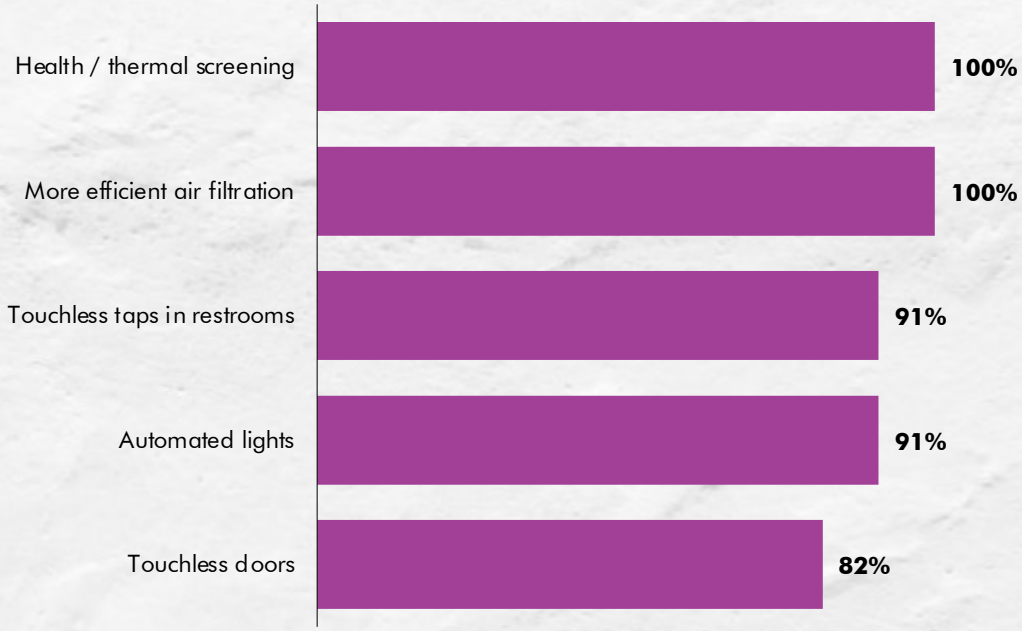
VARIED HEALTH & WELLNESS OFFERINGS; TOUCHLESS REMAINS KEY

What type of health & wellness enhancements have been carried out in your firm's centres?



Other hardware-led health & wellness offerings mentioned by operators included fire safety checks, five sensory focus, hydraulic desks, focus on yoga & nutrition, water & electricity conservation, touchless taps and air fogging, among others

What type of tech enhancements have been carried out in your firm's centres?



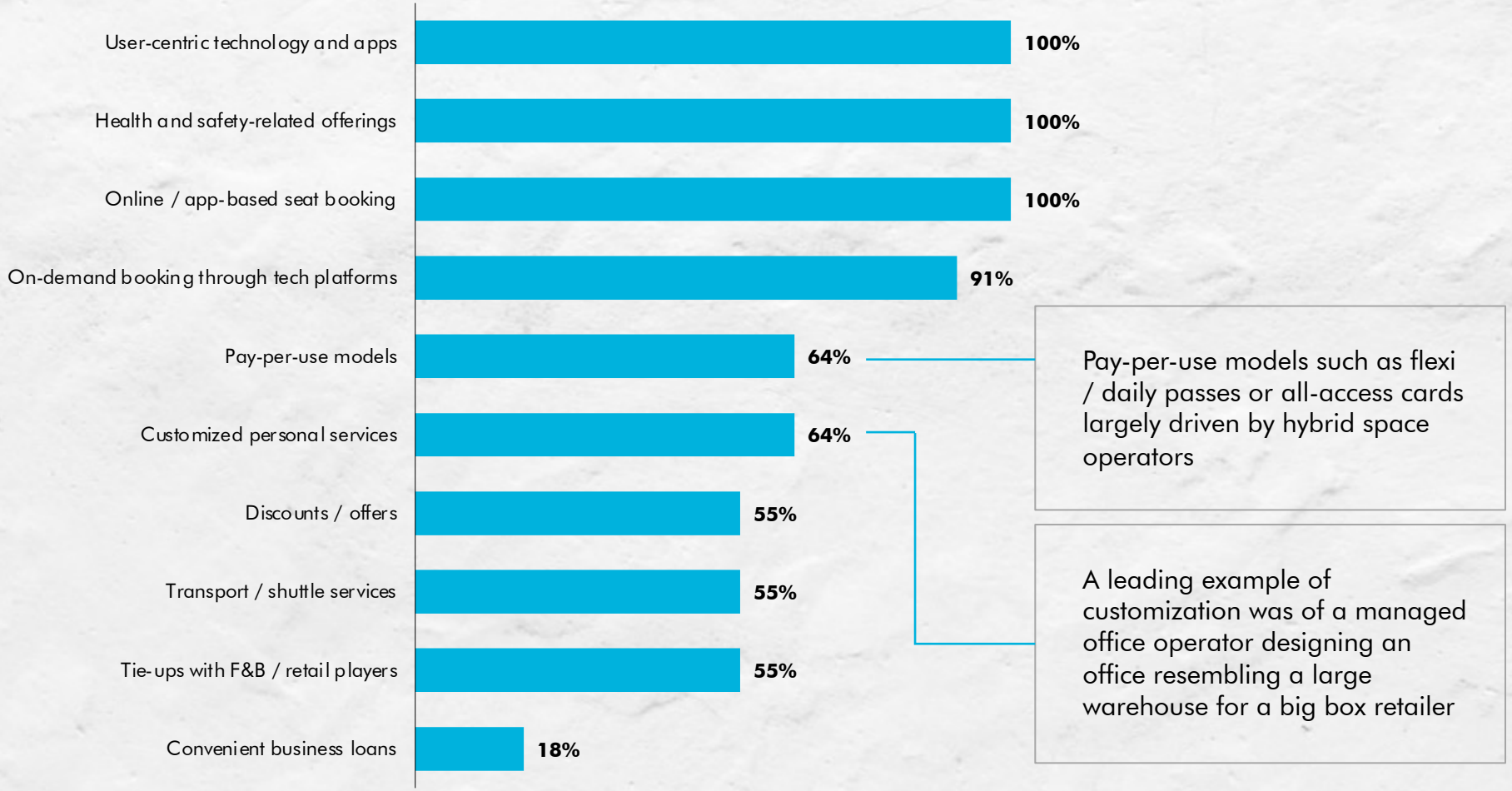
Most operators enhanced offerings via dedicated apps

An operator also mentioned that BFSI firms in particular want to add crash-proof or intruder-resistant doors

Insights on this page are from CBRE's current India Flex Operator Survey; Source: CBRE Research, Q3 2021

TECH-ENABLED SERVICES, HEALTH AND SAFETY OFFERINGS AMONG TOP VALUE-ADDED SERVICES

What are the additional value-added services that your firm is offering / planning to offer to occupiers?



Select operators also mentioned offering software-led services including cloud and server storage services apart from other benefits

Insights on this page are from CBRE's current India Flex Operator Survey; Source: CBRE Research, Q3 2021

VALUE-ADDED SERVICES VIA APPS: HOW DIVERSE ARE THE OFFERINGS NOW?

FRONT-END

EMPLOYEES / END-USERS

Seat booking
- Smart scheduling / apps to manage seats / rostering technology / pre-booking of seats
- Booking of board rooms, meeting rooms / smart meeting rooms

Automated access
- Flexi / daily passes / pay-per-use
- Premises and amenities access, smart access system

Client services
- Client engagement activities and events - scheduling and enrolment
- Virtual office services
- Community app for all members globally

F&B services
- App-based food ordering with delivery at desk / QR code-based menus / cashless food ordering
- Operating vending machines, coffee machines etc.
- Services store for retail and F&B tie-ups

Concierge and travel services
- Concierge services
- Parking management, valet parking
- Transportation and airport taxis

Customer support
- Automated bot for customer support on websites
- Feedback and support / QR code-based feedback system / ticket-raising system for complaints / customer care helpdesk

PRE-SALES

OCCUPIERS / EMPLOYERS
- Digitization of the design process through an app or web-based platform from layouts to material selection, tracking progress
- AR / VR tours of centres, remote inspections and site visits

BACK-END

ADMIN
- Space utilization / space tracking
- Space mapping across centres and cities, multi-city approach
- Visitor management / pre-authorized visitors
- Track-and-trace

FACILITY MANAGEMENT SERVICES
- Air quality measurement
- Temperature controls
- FM scheduling, monitoring and execution, app for FM manpower
- FM dashboards giving insights on water and electricity consumption
- Housekeeping and security services
- Building management systems

Insights on this page are from CBRE's current India Flex Operator Survey;
Source: CBRE Research, Q3 2021

Note: The above instances were sourced from various operator interactions / websites

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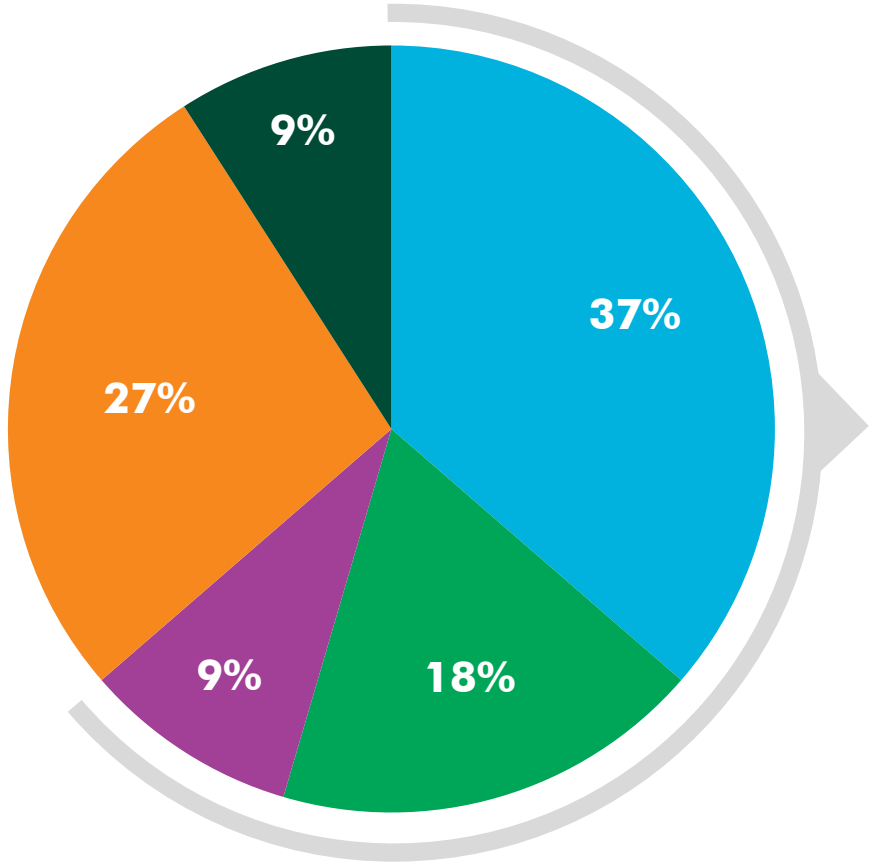


OUTLOOK FOR THE FLEXIBLE SPACE INDUSTRY IN INDIA

AVERAGE CENTRE SIZE TO INCREASE IN THE FUTURE

What is the change in centre size that your firm is considering?

With an anticipated increase in average centre sizes and overall demand by flex operators, we believe the government can support them in operating out of SEZs as well. Operators could provide 'infrastructure as a service' and be given a right to lease out the space either on a temporary or case-to-case basis. A certain portion of the non-processing area can thus be allocated for investing in this 'mini-zone'. This could be subleased only to NFE* positive unit holders with valid LoAs**, thereby enhancing SEZ occupancies.



Several hybrid space and managed office operators felt they would be increasing their average centre sizes, mainly due to increasing occupier demand

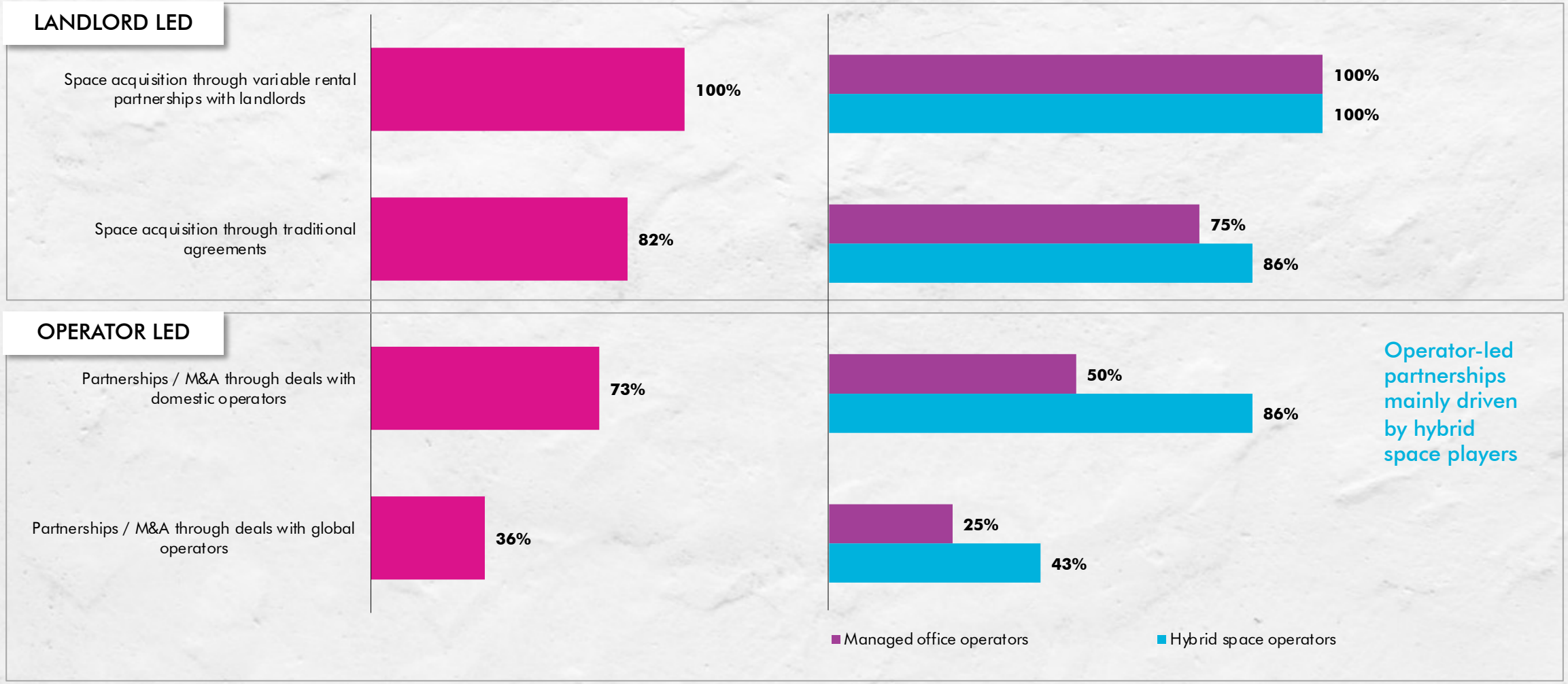
*Net Foreign Exchange
**Letter of Approval

Insights on this page are from CBRE's current India Flex Operator Survey;
Source: CBRE Research, Q3 2021

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LANDLORD PARTNERSHIPS THE PREFERRED MODE OF EXPANSION

What are your firm's expansion plans in the medium (one-two years) to long term (more than two years)?

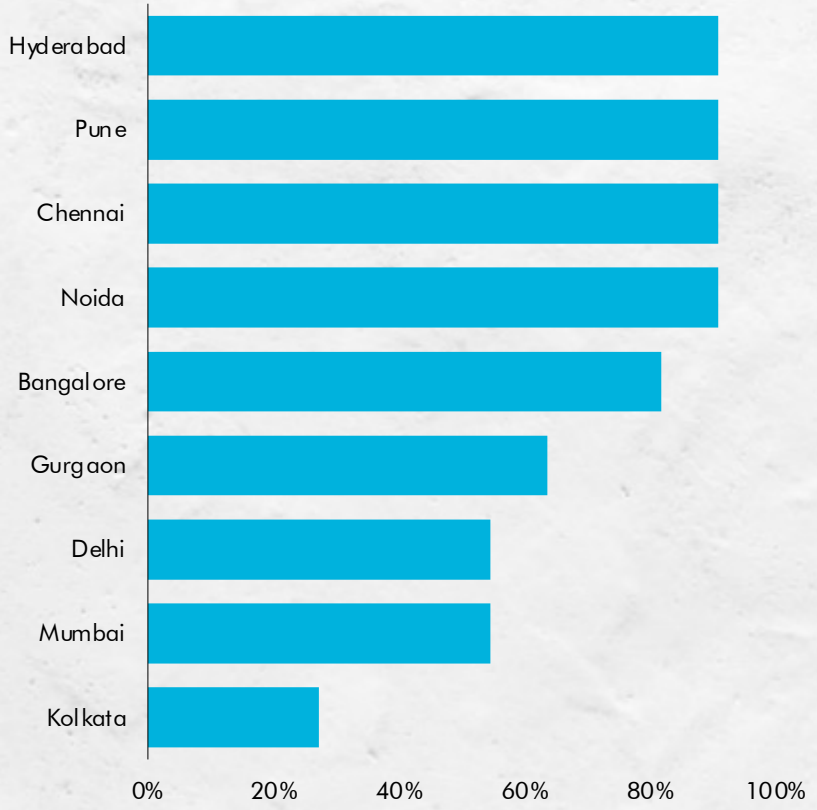


Insights on this page are from CBRE's current India Flex Operator Survey; Source: CBRE Research, Q3 2021

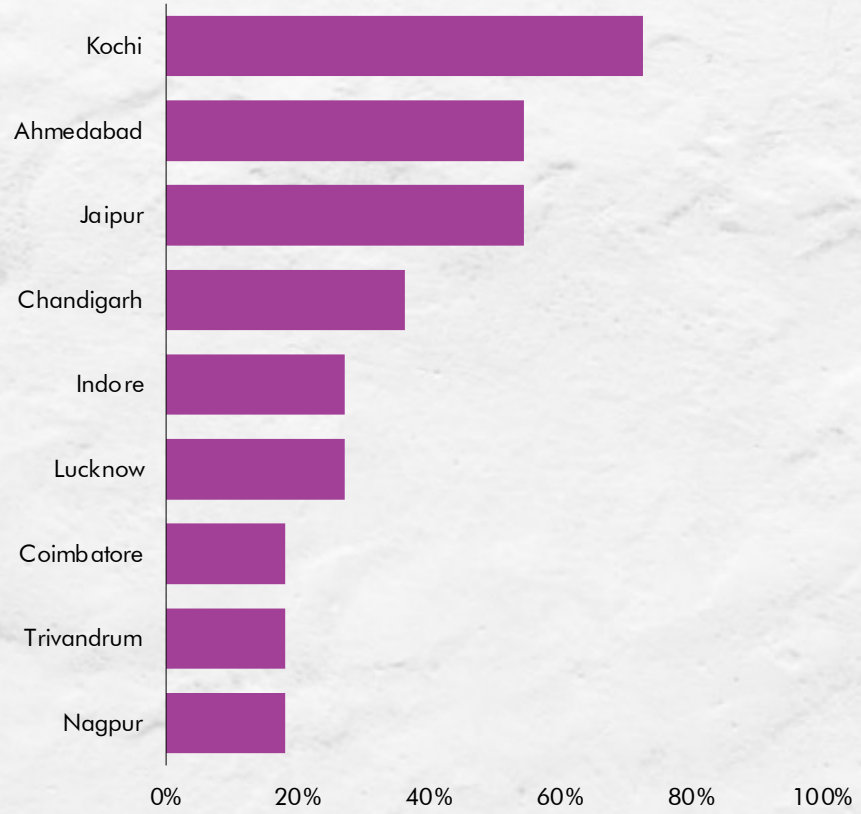
TIER I CITIES CURRENTLY WITH A LOWER FLEX STOCK TO SEE AN INCREASE IN PENETRATION; TALENT AND INFRASTRUCTURE TO DRIVE TIER II DEMAND

What would be your firm's medium (one-two years) to long-term (more than two years) expansion strategy in terms of tier I / II / III locations?

TIER I CITIES



TIER II CITIES



KEY REASONS FOR OPERATORS TO EXPAND IN TIER II CITIES INCLUDED:

- Possible hub-and-spoke models
- Demand-led entry / expansion of BFSI and tech corporates including healthtech, edtech, fintech, etc.
- Expansion of leading companies in tier I cities to tier II cities
- Expansion of companies already based in tier II cities
- Easier partnerships with local operators
- Rising demand from SMEs

Note: The above graphs of future destinations include expansion / entry into these cities.

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Insights on this page are from CBRE's current India Flex Operator Survey; Source: CBRE Research, Q3 2021

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 centres 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 as per evolving enterprise demand

'CREATIVE' PARTNERSHIPS WITH LANDLORDS

Landlords could undertake variable rental 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 office solutions. The balance area is then marketed to other potential tenants.

Source: CBRE Research, Q3 2021

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 OFFICES*

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 AND VALUE-ADDED SERVICES

Occupiers would display an increased inclination towards agility / flexibility to meet RE requirements; along with an increasing need for tech enhanced spaces and health & wellness elements

*Themes still applicable in the future
**Core here refers to traditional office space take-up

Source: CBRE Research, Q3 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 could undertake variable rental 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 valuations**

*Themes still applicable in the future

**Source: CBRE's The Property Value Implications of Flexible Space, U.S., 2019 (yet to be empirically tested in India); CBRE Research, Q3 2021

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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' / 'operator - operator'**



DEMAND-BACKED EXPANSION BY OPERATORS

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



FOCUS ON TECH, HEALTH AND SAFETY

Dedicated efforts by operators to seamlessly provide enhanced offerings



EVOLVING BUSINESS MODELS

Growing interest in **subscription-based models** that support a more distributed network of people + space offerings



PROMINENT ROLE OF MARKETPLACE AGGREGATORS

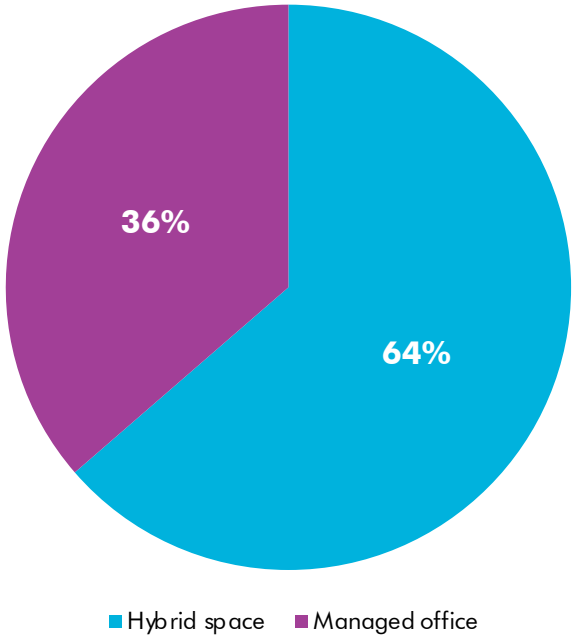
Enhanced occupier **need for aggregators** to find, shortlist and finalize apt flexible space options

Source: CBRE Research, Q3 2021

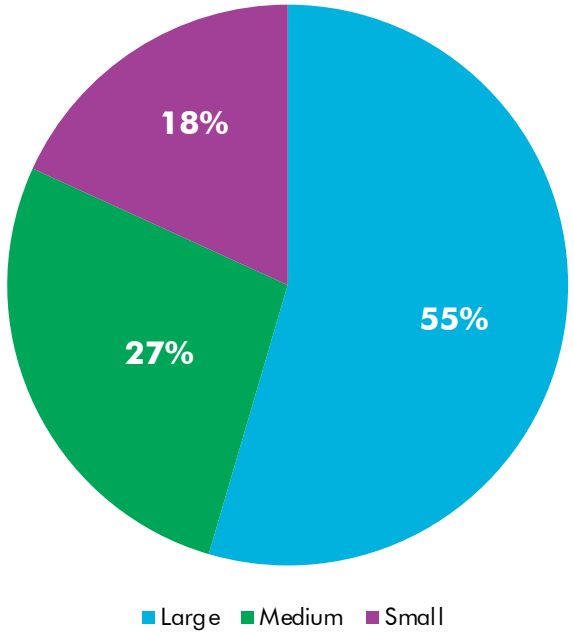
RESPONDENT PROFILE

- The survey was conducted in July 2021
- The respondents included key operators covering more than half of India's flexible space stock

% OF RESPONDENTS BY OPERATOR TYPE



% OF RESPONDENTS BY OPERATOR'S PORTFOLIO SIZE*



*Portfolio sizes are classified as follows:
Large-sized: over 1 million sq. ft.
Medium-sized: between 300,000-1 million sq. ft.
Small-sized: less than 300,000 sq. ft.

Source: CBRE Research, Q3 2021

THE FUTURE OF FLEXIBLE WORKSPACES

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