

Colliers

Qdesq

Future Flex

A hybrid & productive workspace approach



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Foreword



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” The concept of flex spaces are fast evolving with the market having expanded beyond entrepreneurs and freelancers.



The world as we know has changed in the last one-and-half years. Flex spaces that were thought of as a fad four years ago, have now evolved as a mainstream segment. The concept of flex spaces are fast evolving with the market having expanded beyond entrepreneurs and freelancers (its original demand drivers). By 2019, flex demand was led by established enterprises. With the onset of new developments, flex spaces are now offering customizable managed office solutions to occupiers.

Flex spaces offer corporates the flexibility to expand or alter their space as per their requirements. In a volatile economic environment, companies are re-evaluating their 'cost economics' and assessing the shift to hybrid work plans. The original chronicle of the 'workplace', as we know it, is bound to evolve. It will be an amalgamation of workspace requirements for head offices, satellite office, on-demand space and work-from-home and work-from-anywhere models. This shift offers a gigantic opportunity for growth for flex operators.

In this report, we study how the segment is witnessing revival and transformation since Q3 2021. Demand in Metro cities will continue to grow. This will be coupled with evident expansion in non-metro urban centres. Overall, the next two years are crucial for flex spaces as they develop, respond, evolve and cater to the progressing office space dynamics.

Foreword



Paras Arora

Founder, Chief Executive Officer Qdesq

” The pandemic has underlined the importance of commute time, decentralization of workspace, and a hybrid and productive workspace approach.



Flexible workspaces, which means ready to move-in and managed office spaces, either private or shared (coworking), are now an integral part of the occupier's portfolio and future growth strategy tool. This CRE asset class has evolved with maximum agility and tacit learning. What was an alternate form of office spacing pre-COVID is now mainstream and, for some occupiers, the way to go. The pandemic has underlined the importance of commute time, decentralization of workspace, and a hybrid and productive workspace approach. The office space segment is now future-ready (Hub - Spoke and Work from Anywhere) and the new narrative have moved from one confined option to on-demand and anywhere usage.

CRE leaders need more quantitative and qualitative data on flex workspaces to strategize the medium and long-term portfolio. On the other hand, flex space operators would also need to have a data-driven approach to their expansion and devotional focus towards the occupancy experience and retention.

This is now the inflection point for the flex industry, with all trends and patterns favouring enormous growth and adoption. The key takeaways from this report are

- A. Demand increase in non-metro cities and balance created by local supply operators.
- B. Managed office deals in metro cities, hinting at the shift to the operator-managed corporate office.
- C. Coworking and single 'occupier' managed office, both the solutions will be in demand across sectors.

At a glance

In India, flex spaces have been expanding in the metro cities since 2017. As per Colliers, leasing of flexible spaces touched 12 million sq feet in 2019, in the top six metro cities, led by demand from large enterprises. In 2020, with the pandemic raging, flex operators took a step back by closing unprofitable centres and postponing leases. However, after a lull of one-and-a-half years, operators have started expanding since Q3 2021 led by enterprise-driven demand. As occupiers are looking at enhanced flexibility in their leases, we have more reason to believe that the pandemic is playing a key role in accelerating the growth of flex spaces in the market.



Occupiers' work plans emanating from on-demand spaces and satellite offices will drive flex space needs. As occupiers formulate their hybrid work plans, they are looking to add flexibility and agility, outsource workspace delivery, reduce capital expenses, and elevate employee experience. Enterprises will look for good quality flex spaces to set up regional offices in suburban locations in metro, and in non-metro locations.

3,410
number of
flex centers as
of Q3 2021

71%
average
center occupancy
in Q3 2021

21%
improvement
in desk prices in q3 2021
as compared to covid period

Flex stock in Metro and Non-metro cities

Metro Cities



38.6
msf

Current stock
as on Q3 2021

53.0
msf

Stock
2023F

Non-metro Cities



5.2
msf

Current stock
as on Q3 2021

7.8
msf

Stock
2023F

Note: Pre-covid time represents Jan-19 to Mar-20 period, Covid period represents Apr-20 to June-21 period

- Metro cities include Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai, Pune.
- Non-metro cities include Ahmedabad, Bhuvneshwar, Chandigarh, Coimbatore, Guwahati, Indore, Jaipur, Kochi, Lucknow, Nagpur, Patna, Surat, Vadodara, Vizag.
- Data pertains to all grades.

Metro cities remain the stronghold of flex spaces, accounting for about 88% of the total flex stock as of Q3 2021. The pandemic has provided an opportunity to operators to open centers in non-metro locations. Flex space in non-metro locations is witnessing growth since early 2021, led by occupiers establishing their sales and regional offices. We predict that by 2023, total flex space in metro and non-metro locations will touch 60 million sq feet, assuming lower rates of Covid, steady economic activity and no large-scale restrictions.

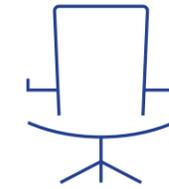
1.1. Flex space landscape pre-covid & post-covid



Occupancy levels reviving and grown to 71% in Q3 2021



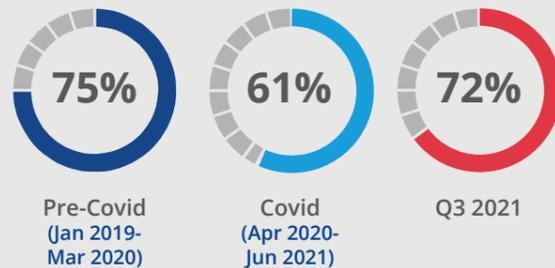
Post a decline, average prices reflect recovery in Q3 2021



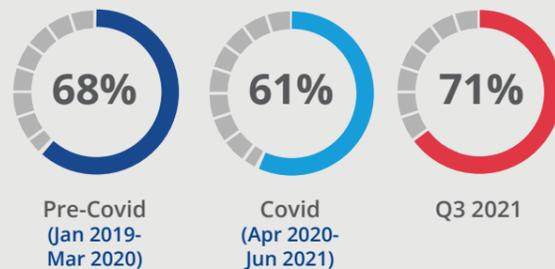
Demand-Centric growth

Average occupancies in metro and non-metro cities

Metro Cities



Non-metro Cities



- After a dip in occupancy, seat uptake is reflecting an upward trajectory in Q3 2021, with large enterprises leasing seats in flex centers.
- Operators are focusing on demand-led growth which will help them maintain occupancy levels.
- Non-metro cities have witnessed an up-take of seats by occupiers for their sales and regional offices during Q3 2021, leading to higher occupancy.



Price trends

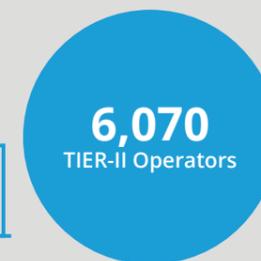


Average prices per desk in Q3 2021 in INR/desk/month

Metro Cities



Non-metro Cities



Occupier confidence is improving after one-and-half years. Prices are recovering with evident growth of 21% in a span of three months in Q3 of 2021.

Note: Average price per desk indicates average cost of dedicated hot desk in INR/desk/month



18% Professional Services



17% Technology



10% MSMEs and Start-ups



55% Others

At present, Professional services, Technology and IT firms are the largest demand drivers, collectively accounting for 35% share in total space uptake in flex centers. As e-commerce companies are expanding in metro as well as non-metro cities, we expect their share in total seat uptake to increase over the next two years.

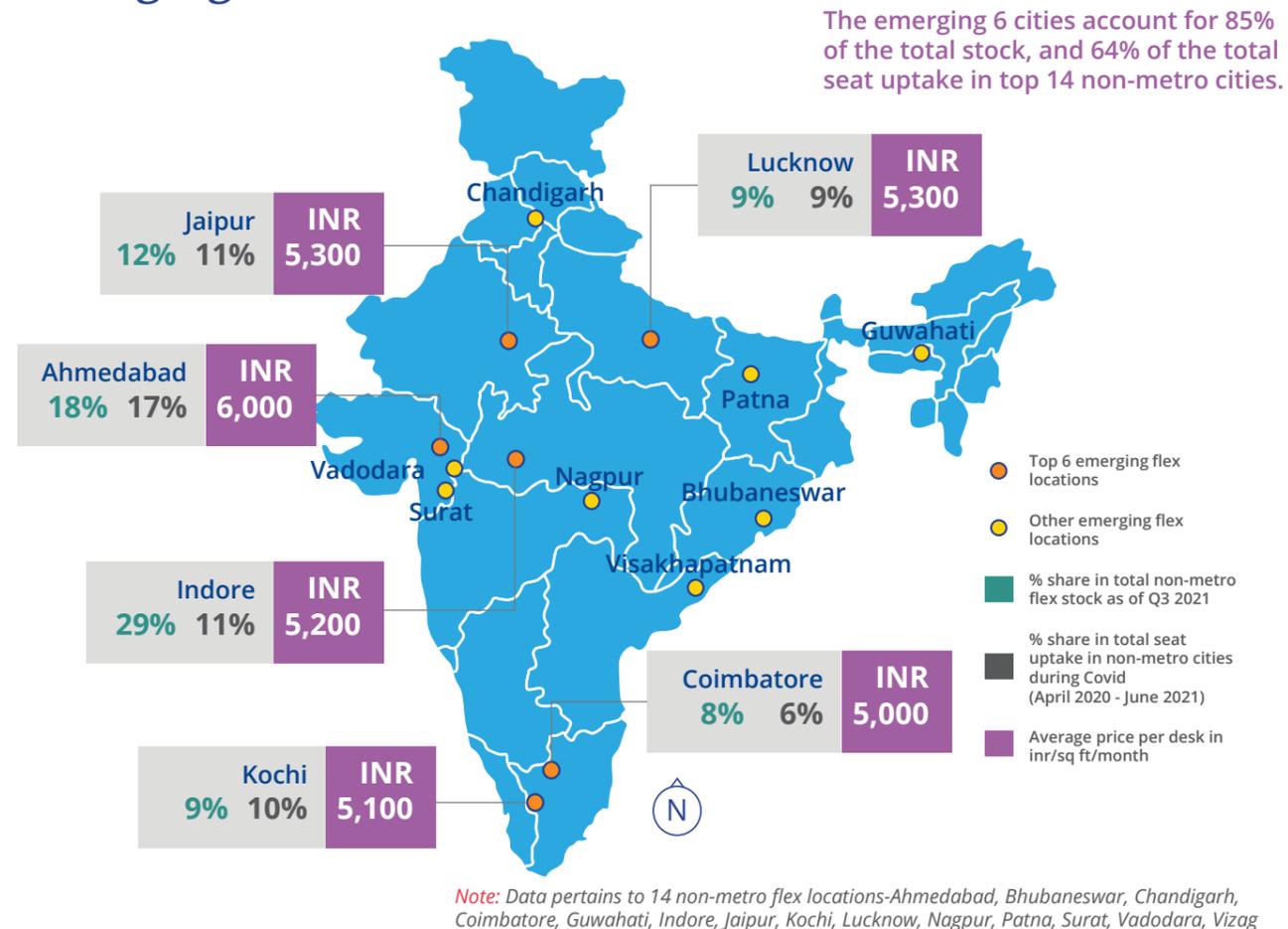
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1.2. Non-metro cities witnessing ascending growth

Non-metro cities picks



Emerging Flex locations



- Large enterprises are increasingly embracing the hub and spoke model and setting up satellite and sales offices in non-metro cities.
- Our top location picks, as indicated in the map, are emerging hotspots that are experiencing robust activity and evident growth. Our recommendation to operators is to consider these cities for expansion and future growth.

2.0 Evolving flex business

Several business models to co-exist

Key trends observed



Strategic agreements for operators

Traditional leases are giving way to models such as:

- Revenue-share model
- Management contracts
- Hybrid model (fixed minimum rent plus revenue share)

Apart from these, some operators are seen to explore the franchise model, although that can pose some risk of brand



Choice-based model for occupiers

Occupiers are evaluating the concept of 'work from near-home' through satellite and hub-and-spoke offices. We foresee that these offices will be an amalgamation of traditional leases and flex spaces.

With gig economy gaining traction, we also predict the need for on-demand spaces, as occupiers would require space by the hour/week/month for certain teams. Such space requirements can successfully be driven by flex spaces.



Customized deals for Occupiers

Occupiers are opting for tailor-made mandates with operators for future expansion and leasing. Flex operators will take up spaces and customize them as per the occupiers' needs. However, at the same time, operators are likely to also incorporate and offer some proportion of ready buildings for immediate absorption by start-ups and entrepreneurs.

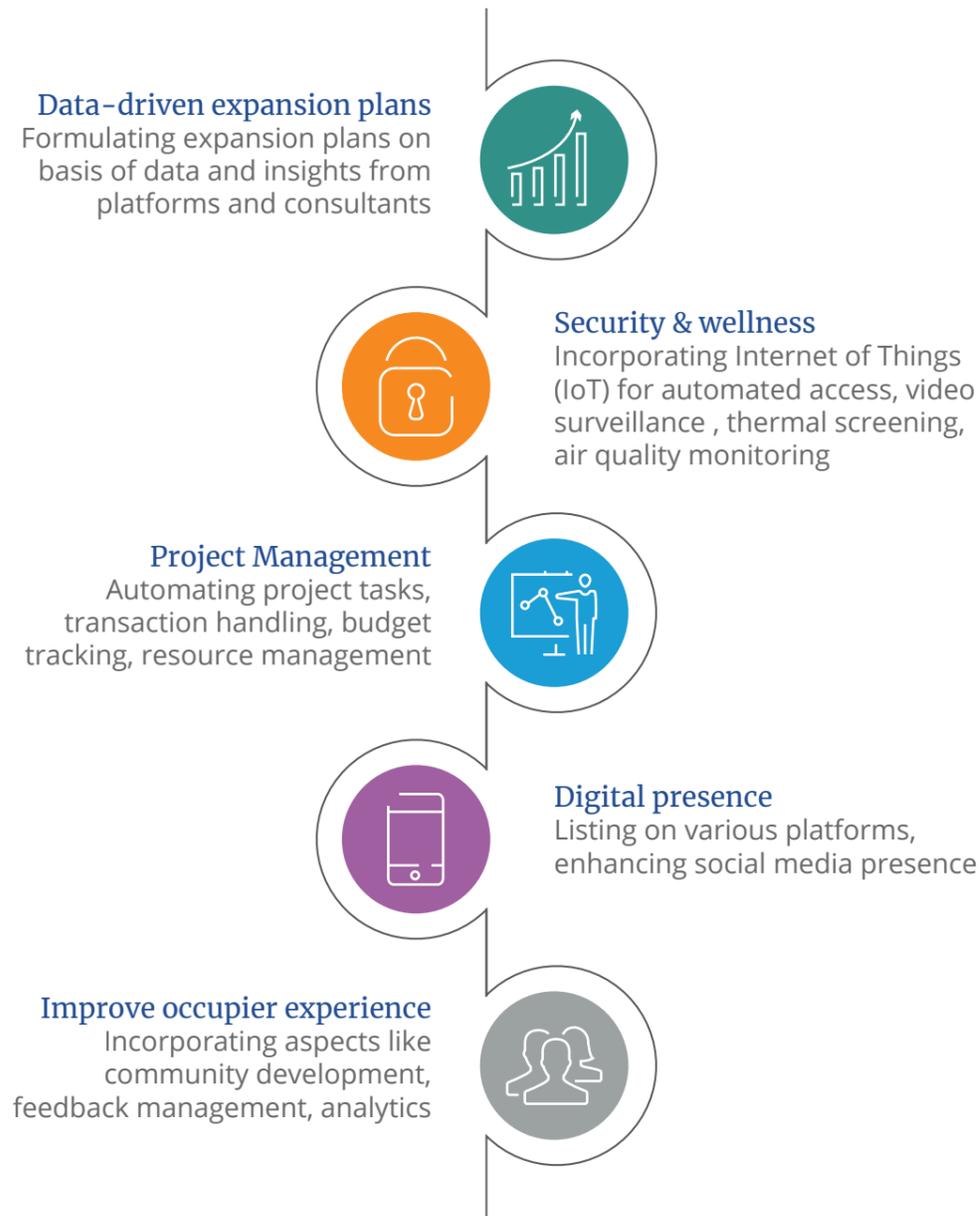


The landlord view

As flex space slowly becomes the norm, landlords will allocate 10-20% of their portfolio as flex space in a 'core plus flex model.' This can be offered through a mix of pre-commitments and mandates and some fresh uptakes. However, we believe that to achieve maximum benefits from the growing demand, landlords will partner with operators to capitalize on operators' expertise to manage and run flex spaces. This can be done largely through mandates and management contracts. Some developers could also explore acquiring established operators, to achieve precedence in the market.

3.0 How flex operators can innovate?

Technological Augmentation



Currently, tech adoption in flex spaces is limited to financial analysis, lead generation and transaction services. However, we believe occupiers will invest in elevating user experience and this will emerge as a key differentiator in this highly competitive segment.

Hotelisation of flex space through amentisation will emerge as a key differentiator.



The flex market in India is evidently evolving. With enterprises increasingly incorporating a flex space component in their portfolio, demand will be resilient. However, there is no one-size-fits-all solution. Flexible workspace operators must, therefore, continue to focus on customization and providing on-demand workspaces to cater to occupiers' need for next-generation offices.



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About Qdesq Realtech Pvt Limited

Qdesq is India's largest marketplace & fastest platform to discover, evaluate and book flexible spaces

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