

The Resurgent Flex



Flex Spaces Driving the Office Market Bounce-Back

Office market leasing has had a strong bounce back in H1 2022 with 30.4 mn sq. ft. gross leasing volume, and we expect the recovery to exceed pre-pandemic levels, with a projected 50-60% YOY increase by year-end in comparison to 2021. Interestingly, since 2018, the overall commercial real estate activity in 6 major markets of the country¹ has been directly correlated with the performance of the coworking sector.

Both, gross absorption and coworking sector share had hit consecutive **peak years in 2018 and 2019**. However, in **2020**, during the initial phase of the pandemic, businesses put real estate

decision-making on pause, and apprehensions arose with respect to the viability of coworking spaces – **'Sharing Resources' vis-à-vis 'Social-Distancing'**. Flex spaces lost the momentum of 2019 significantly and recorded only 2.6 mn sq. ft. of leasing activity, a YOY decrease of almost 66%. As the office markets embarked on a period of **gradual recovery in 2021**, coworking operators with out-of-the-box services and enterprise-level offerings took advantage of dynamic commercial real estate requirements and regained the confidence of occupiers. Interesting offerings such as daily passes, flexibility to work across domestic and international locations

for members and fully customizable lock-in periods (if at all), have been quite successful in attracting occupiers to use flex-offices. Flex spaces have continued to drive the strong resurgence of commercial real estate in 2022. The sector accounted for an 18% market share of the total office leasing activity witnessed in the first half of 2022.

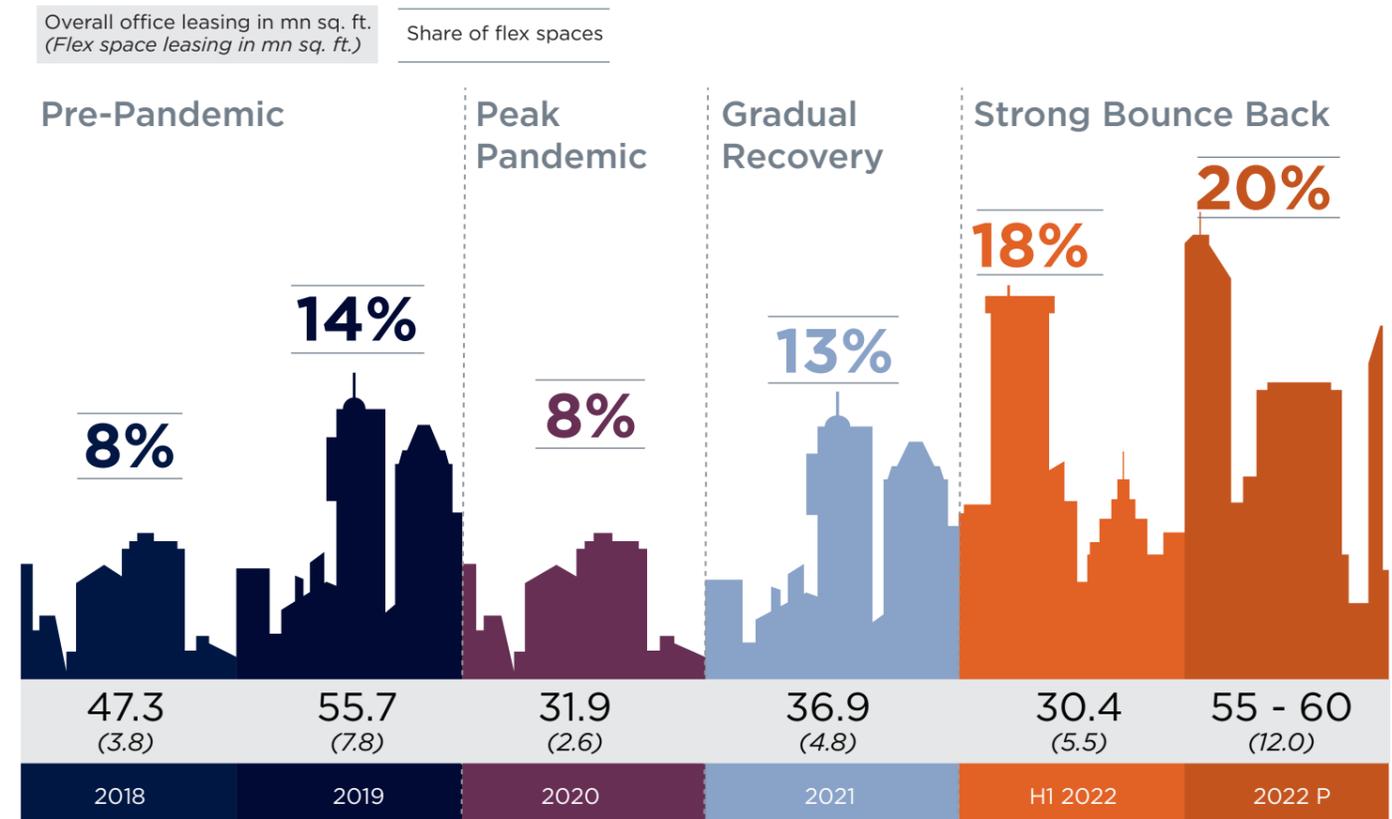
Savills India Research expects that **2022 is likely to witness a new peak** in terms of gross absorption, and the **coworking sector will account for around one-fifth** of the overall demand, easily crossing the pre-pandemic share of 14% in 2019.

¹ Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune

Preface

The pandemic has changed the way real estate stakeholders including occupiers, developers, and coworking operators perceive commercial office space requirements. There is a greater emphasis on employee wellness and regaining lost productivity levels while simultaneously minimising capex and operational expenses. One of the reasons for flex spaces navigating through the course of the pandemic is its appeal to a broad demographic. From the reclusive employee who prefers to work in silos to the extrovert who wants to expand their network over the community-based layout, flex spaces have something for everyone.

Office market leasing and flex space share trend



Source: Savills India Research

Established Flex Hotbeds

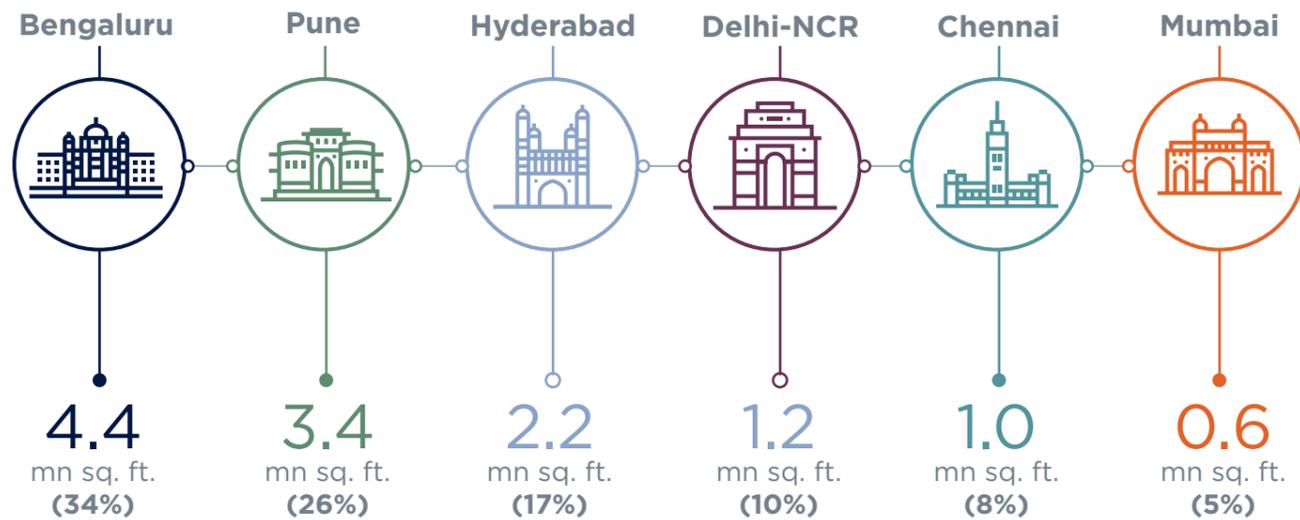
Historically, with 4.4 mn sq. ft. of leasing volume by shared spaces, Bengaluru has contributed to more than one-third of the coworking space leasing activity since 2020. The city has been followed by Pune and Hyderabad with 3.4 mn sq. ft. and 2.2 mn sq. ft. of flex space absorption, respectively. The three cities are established

coworking hotbeds and had a cumulative share of 77% in leasing activity since the onset of the pandemic in 2020. This overwhelming contribution by Bengaluru, Pune and Hyderabad can be attributed to the fact that these cities are favourites, when it comes to space take-up by MNCs, IT enterprises, start-ups,

unicorns, and new-age companies alike.

Interestingly, the top 5 micro markets of the country had a cumulative 60% share since 2020, indicating the concentration of coworking activity in certain preferred pockets of the country.

City-wise Coworking Space Activity (2020-H1 2022)



Top 5 Coworking Micro Markets* in India

(60% Share in 2020-H1 2022)

18%
Bengaluru ORR

15%
Pune SBD-West

13%
Hyderabad SBD-I

7%
Bengaluru CBD

7%
Bengaluru SBD

Source: Savills India Research

Strong Traction in Uptake of Flex Seats

As organisations encourage employees in returning to physical offices, agility and flexibility have become the core of the real estate decision-making process. Consequently, strong traction is evident in coworking desks taken up by occupiers in H1 2022. Coworking operators have leased over 75,000 seats in H1 2022 alone, compared to 60,000 seats in 2021. Almost 75% of the demand for coworking desks in H1 2022 is attributable to the three largest flex markets - 45% in Bengaluru, 20% in Pune, and 10% in Hyderabad.

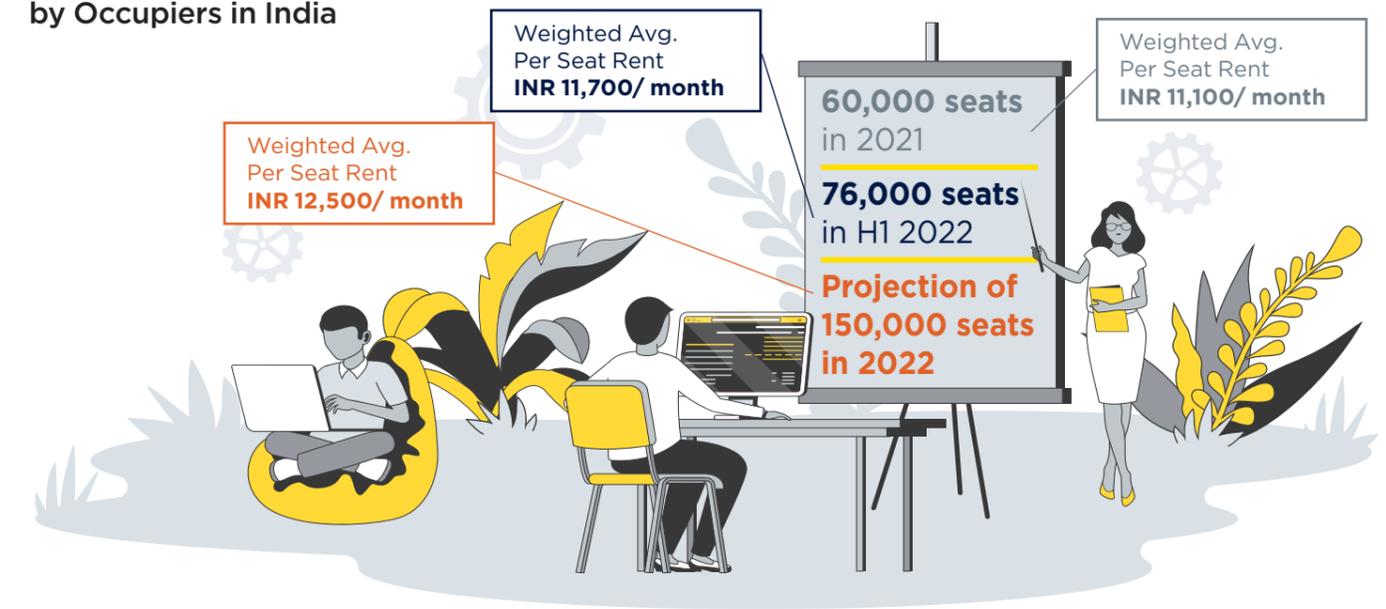
As per Savills India Research, the total flex seat demand is anticipated to reach a new high with 150,000 seats, an increase of 1.5X YOY in 2022. This is in line with our earlier prediction of a

strong recovery in the coworking sector. (Nov 2020 paper titled “[Collaborative Spaces in a Dynamic World Order](#)”) We had predicted 120,000-170,000 uptake of flexible seats, primarily driven by altered real estate dynamics and innovative product offerings by coworking operators.

Weighted average per seat rentals have witnessed a positive correlation with the demand for managed spaces in the country. The increase in rentals can also be attributed to operators factoring in capex costs incurred while making flexspaces as per occupier specifications. As of H1 2022, the weighted average monthly rent of a flex seat in India stands at INR 11,700/

seat. This is a 5% YOY growth compared to the weighted average prices at the end of 2021. However, one must note that the pricing of a flex seat in a particular commercial building is dependent on multiple factors such as micro market, facilities provided by the operator, and the quality of the building. Thus, the per seat rentals can be as high as INR 65,000/month/seat in BKC, Mumbai, or as low as INR 6,000/month/seat in peripheral areas of Hyderabad. With healthy coworking sector traction envisaged for the rest of the year, average monthly rentals in India are expected to touch INR 12,500/seat by the end of 2022, a 13% YOY growth.

Coworking Desks Taken by Occupiers in India



Source: Savills India Research

*Micro market definitions

Bengaluru: Outer Ring Road (ORR) - Zone 1: Sarjapur to Marathahalli, Zone 2: Marathahalli to KR Puram, Zone 3: KR Puram to Hebbal

Bengaluru: Central Business District (CBD) - MG Road, Millers Road, Vittal Mallya Road, Residency Road

Bengaluru: Secondary Business District (SBD) - Indira Nagar, Old Airport Road, CV Raman Nagar, Koramangala, Jayanagar, Domlur, Bannerghatta Road, Rajaji Nagar, Malleswaram

Pune: SBD West - Aundh, Baner, Balewadi, Pashan, Kothrud, Karve Nagar, Khadki, Paud Road

Hyderabad: Secondary Business District I (SBD-I) - HITEC City, Madhapur, Kondapur, Raidurg

Drivers of Flexible Space Leasing Activity

1. Start-ups

It is not a hidden fact that the start-up ecosystem in India has become a force to reckon with in the past few years. Up until 2016-17, India had only one unicorn². However as of June 2022, India is home to 17 unicorns with an estimated market value of USD 22 billion³. India rose 28 spots to be placed 19th amongst 100 startup hubs⁴

globally in 2021. In 2020, India was placed 48th in the same survey.

Nimble footedness and cost consciousness are hallmarks of such companies, and it is not a surprise that they continue to prefer coworking spaces over traditional office set-ups. Start-ups have accounted for 13% of the flex space demand in H1 2022.

Share of Start-ups in Flex Seat Take-up in H1 2022



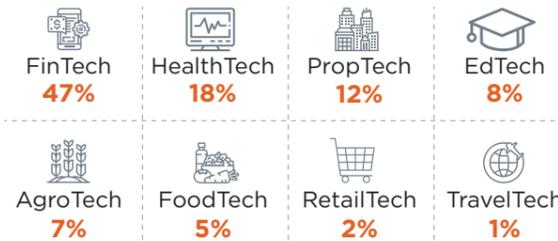
Source: Savills India Research

2. New-age companies

New-age businesses such as FinTech, HealthTech, EdTech, RetailTech, etc. have quickly embraced the flex space concept. With a cumulative uptake of around 15,500 seats, these companies had a market share of 20% in H1 2022. With more and more organisations leveraging on deep technology, machine learning, and artificial

intelligence, we expect the shared space take-up from new-age companies to increase further as they expand their operations in Tier-II and III cities of the country.

Split of ~15,500 Seat Uptake by New-age Companies in H1 2022



Source: Savills India Research

3. Multi-national companies

Contrary to earlier times, where flex spaces were held appropriate for most start-ups and mid-range companies, almost 52% of flex space leasing in H1 2022 has come from organisations with operational presence in more than one country. In the age of hybrid and work-from-anywhere culture,

MNCs are embracing coworking spaces to encourage employees to work in locations closer to their homes, while keeping a check on dynamic real estate requirements.

Share of MNCs in Flex Seat Take-up in H1 2022



Source: Savills India Research

Start-up: An entity which has been founded less than 10 years ago, and has an annual turnover less than INR 100 crore

Unicorn: A privately held start-up company with a valuation of over USD 1 billion. The term is commonly used in the venture capital industry.

² Source: Investopedia

³ Source: investindia.gov.in

⁴ Source: Startup Blink Report

Other Flex Space Insights

Higher average space uptake as compared to other sectors

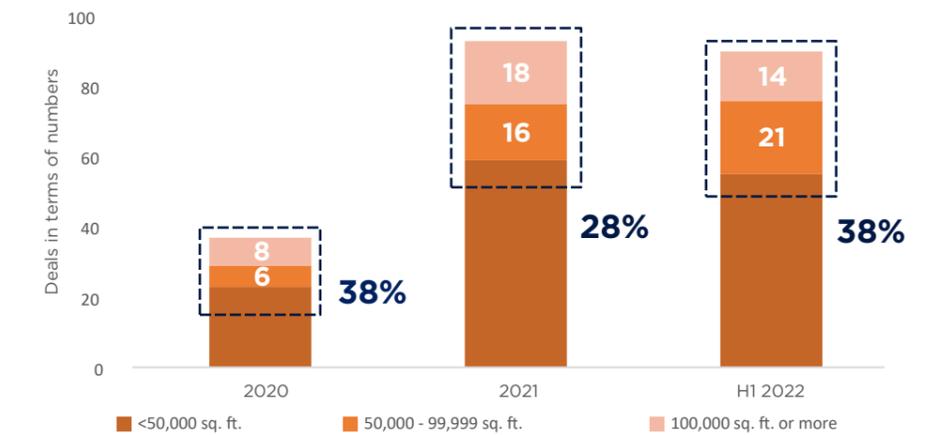
Interestingly, the average transaction size of coworking spaces is almost 53% higher than the average of other sectors from 2020 to H1 2022. The figures are proof enough of coworking's popularity during and post the peak-pandemic period when businesses are reassessing their workplace strategies and putting more emphasis on flexibility and cost savings.

With businesses focusing on portfolio optimisation as per employee demands, flex spaces with their myriad of options ranging from daily rental schemes to increased tech inclusion, sustainability and wellness features are expected to grow and secure their positioning of a paradigm shift in the commercial office leasing sector.

Average Transaction Size (sq. ft.) Comparison (2020 - H1 2022)



Share of large-sized coworking transactions



Source: Savills India Research

Dominance of big-ticket transactions

Despite the setbacks and difficulties, growing demand from big businesses resulted in flex operators expanding across cities and growing their portfolios. The coworking sector has already witnessed 35 transactions of 50,000 sq. ft. or more in H1 2022, exceeding the full-year big-ticket activity of 2021. The dominance of big-ticket transactions is also reflected in the number of desks taken up by large occupiers in coworking centers across the country. 14 organisations ranging from the traditional BFSI sector to new-age companies have taken up more than 1,000 seats each in H1 2022; Such large space uptake in flexible spaces was unheard of a few years back.

Top 5 Coworking Transactions in H1 2022

Operator	Building	Area (Mn. sq.ft)*	City	Micro market
Smartworks	AP 81 B Wing	0.45	Pune	CBD
Table Space	Amar Tech Park	0.30	Pune	SBD West
Smartworks	Amar Madhuban Tech Park	0.30	Pune	SBD West
Simpliwork	Sky One Corporate Park - Phase 1	0.23	Pune	SBD East
Smartworks	Karle The Cube	0.23	Bengaluru	ORR

Source: Savills India Research

*Approximate and indicative areas only

Signals from the BFSI Sector

Companies from the Banking Financial Services and Insurance (BFSI) sector, be it front-end offices of domestic banks or business/knowledge processing units of global financial institutions, have been a significant contributor to the demand of office spaces in the country. With a 10-20% annual share in gross office space absorption since 2018, the BFSI sector has driven the commercial real estate market of the country and helped the market emerge strongly on the other side of peak pandemic. In fact, with India poised to become the third largest economy in the world by 2030⁵, and the BFSI sector contributing almost one-fifth of the office space demand, it becomes imperative to understand the perspective of the sector towards flexible office spaces. Savills India Research has conducted a survey-based analysis to understand the mindset of senior level executives in the BFSI sector. The analysis provides interesting clues about the changing perception of BFSI occupiers towards shared office spaces and their practical usage.

As earlier apprehensions with respect to data security and privacy have been allayed to a large extent due to enterprise-level offerings by coworking operators, we have witnessed established BFSIs like Kotak, Commonwealth Bank, RBL Bank, MasterCard, SBI General Insurance, Muthoot Finance, KPMG and E&Y welcoming shared real-estate portfolio positions in H1 2022. Although our survey provides a demonstration that dynamic requirements and cost advantage are the top drivers for BFSI companies adopting flexible spaces, it also indicates reasonably towards the notion 'BFSI sector, in today's world, is fairly comfortable with existing technology and safety aspect of flexible spaces'.

In fact, companies from the BFSI sector have rented more than 6,000 seats (6 major markets only) from

coworking operators in the first six months of the year. This translates to an 8% share in the overall 76,000 shared seat take-up witnessed in H1 2022. When looked at in tandem with the additional 7,500 seat take-up by new-age fintech companies, the overall BFSI sector had a 17% share in H1 2022.

Evidently, more than three-fourths of the BFSI respondents in our survey have already taken up or are open towards leasing coworking spaces in the near term.

Indications from BFSI Occupiers

76%

Already taken or open to work in shared office spaces

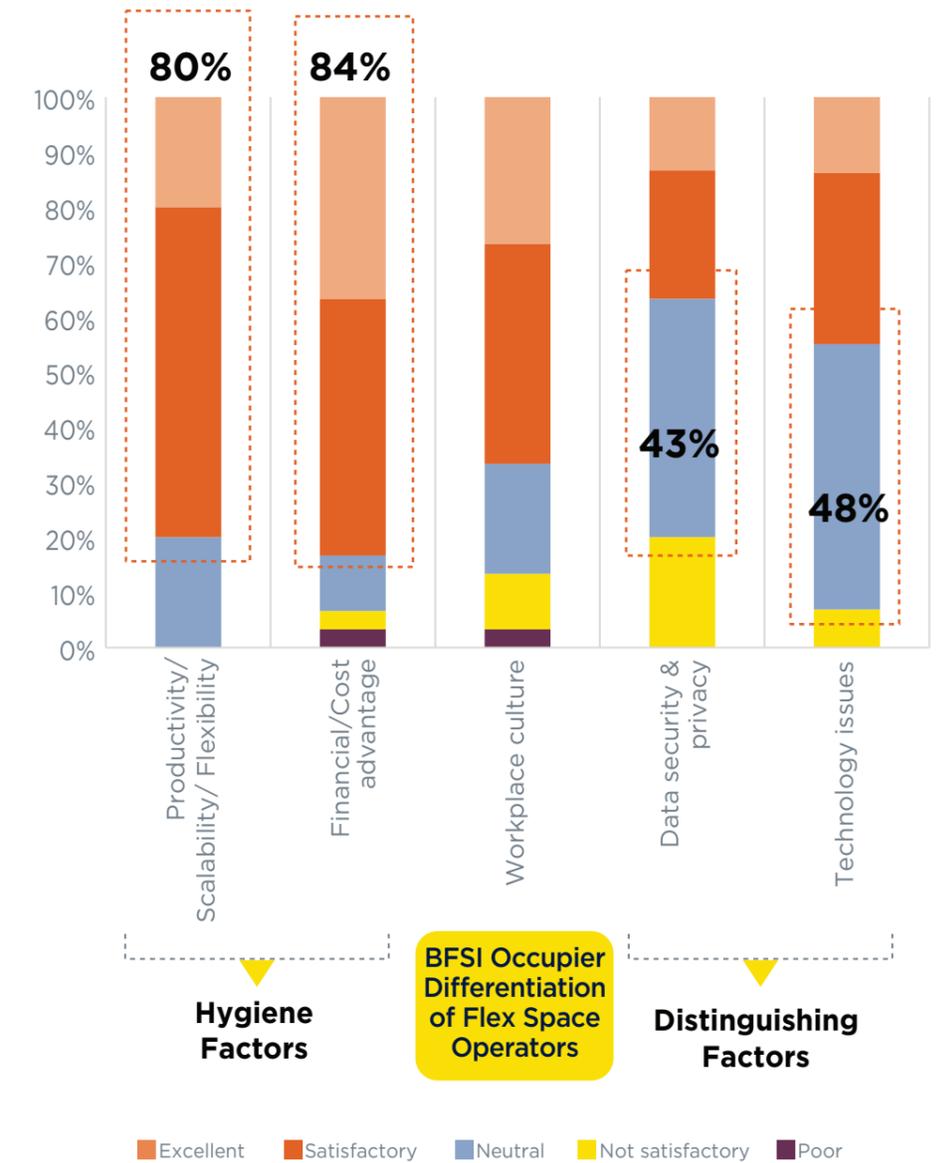
10% of respondents are indecisive, while remaining 14% are not open

(Flex operators need to further alleviate safety and privacy-related apprehensions to make such occupiers comfortable with shared spaces)

Source: Savills India Research



BFSI Occupier Perception of Shared Office Space



Source: Savills India Research

Flex Ahead

As employees return to offices in increasing numbers and future operational visibility for organisations improves significantly, office space demand across the country is expected to reach pre-pandemic heights. With most flex spaces offering a fully managed business ecosystem and option to recalibrate as per occupier needs, Savills India Research expects the share of flex spaces in office leasing activity to reach an all-time high of 20% by 2022 year-end.

Real estate cost optimisation and explosive growth in hybrid work are likely to be the driving factors for coworking sector growth in Tier II and III cities of the country. Employee preference to work from their base locations and a higher focus on talent retention will also

play out significantly in the growth of flexible spaces in smaller urban centers of the country. For more insights on upcoming IT-BPM hotspots and the role of flexible spaces in the sectoral growth story, we urge readers to refer to our recent report '[Tech-Towns of the Future](#)'

In the coming days, occupiers are likely to focus more on the conversion of fixed real estate costs into variable costs which will rise or fall as per organisational requirements. As businesses evolve constantly, shared spaces will continue to provide organisations a chance to design a highly fluid CRE portfolio as per their business strategies, which in turn will further cement the coworking sector in the office market of the country.

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Naveen Nandwani
naveen.nandwani@workthere.in
+91 98455 12879



Kaustuv Roy
kaustuv.roy@workthere.in
+91 98201 34623



Vishal
vishal@workthere.in
+91 98193 85553

workthere

Toll free no. +91 84849 31320
workthere.in



Savills

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Savills India provides services across office leasing, project management, capital markets, valuations, research, consulting, industrial and logistics, and residential services. Started in India in 2016, the company employs over 500 professionals.

Research

Suryaneel Das
Assistant General Manager
Research & Consulting
suryaneel.das@savills.in

Aloka Majumdar
Assistant Manager
Research & Consulting
aloka.majumdar@savills.in

Megha Maan
Director
Research & Consulting
megha.maam@savills.in

Diksha Gulati
Assistant General Manager
Research & Consulting
diksha.gulati@savills.in

Shashwat Srivastava
Assistant Manager
Research & Consulting
shashwat.srivastava@savills.in

Arvind Nandan
Managing Director
Research & Consulting
arvind.nandan@savills.in

Central Management

Anurag Mathur
Chief Executive Officer
Savills India
anurag.mathur@savills.in

Kaustuv Roy
Managing Director
Business Solutions
kaustuv.roy@savills.in

Naveen Nandwani
Managing Director
Commercial Advisory & Transactions
naveen.nandwani@savills.in

Media Queries

Nitin Bahl
Chief Marketing Officer
nitin.bahl@savills.in

Regional Management

Bhavin Thakker
Managing Director - Mumbai
Head - Cross Border Tenant Advisory
bthakker@savills.in

Sarita Hunt
Managing Director
Bengaluru
sarita.hunt@savills.in

Naveen Nandwani
Managing Director
Delhi NCR (Interim)
naveen.nandwani@savills.in

Praveen Apte
Managing Director
Pune
praveen.apte@savills.in

Anup Vasanth
Managing Director
Chennai
anup.vasanth@savills.in

Sesha Sai
Managing Director
Hyderabad
sesha.sai@savills.in

Gurugram

3-A, Second Floor, Building 9B
DLF Cyber City, Phase 3
Sector 24, Gurugram 122 002
Haryana, India

Chennai

Savills, 5th Floor, North Wing
Harmony Square, New No. 48 & 50
Praksam Street, T. Nagar
Chennai 600 017
Tamil Nadu, India

Ahmedabad

INC-02, The First Commercial Complex
B/S Keshavbaug Party Plot, Vastrapur,
Ahmedabad 380 015
Gujarat, India

Mumbai

403, Tower B, Level 4, The Capital
Street 3, G Block, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Maharashtra, India

Pune

WeWork Futura
Magarpatta Road
Pune 411 028
Maharashtra, India

Bengaluru

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bengaluru 560 001
Karnataka, India

Hyderabad

Office No. 06B-106, WeWork
Krishe Emerald, Hitech City
Hyderabad 500081
Telangana, India





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