Intelligent Investment

India Office & Flex Outlook 2024

REPORT

CBRE RESEARCH
APRIL 2024

CBRE

Contents

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Foreword

We are delighted to present the 2024 edition of our flagship India Market Outlook series. As we commence a new fiscal year, this comprehensive report delves into the intricacies of the current market landscape and unveils the projected course of the Indian real estate sector. Leveraging the latest market data, expert insights, and rigorous research, these reports aim to empower our valued clientele and readers with the knowledge to navigate the dynamic economic environment and make informed investment decisions.

India's robust economy, underpinned by a narrowing current account deficit, record foreign exchange reserves, and a healthy fiscal position, creates a fertile ground for real estate growth. The government's commitment to fiscal prudence and the central bank's measured monetary policy have built a strong foundation for sustained expansion. Additionally, targeted government initiatives are expected to catalyse a new capex cycle, further bolstering the market.

Following the resilience displayed in 2023, we anticipate India’s office sector activity to remain upbeat in 2024, attracting firms looking for skilled talent. Leading occupiers continue to prioritize quality spaces for growth, potentially fuelled by an encouraging return-to-office trend. Economic growth and strategic policies propel a growing diversity in office space demand beyond technology firms. At the same time, GCCs, a burgeoning force, continue their significant expansion, solidifying India's position as a key growth market.

Driven by the increasing adoption of multi-polar strategies, India's Industrial and Logistics (I&L) sector is poised for sustained growth in the coming quarters. Demand is anticipated to be dominated by 3PL firms owing to occupiers’ continued reliance on their distribution networks, followed by E&M companies. E-commerce demand for small-sized requirements will also likely pick up pace. Besides, occupiers seek to upgrade to core and quality-compliant assets that offer improved storage facilities, meet EHS requirements, and provide optimized rental options.

India's retail sector also builds on 2023's momentum, driven by strong consumption demand and new shopping mall completions across major cities. With cautious optimism from both retailers and consumers expected in 2024, tier-I cities will likely continue witnessing expansion, while several tier-II markets might become attractive destinations for retail development. Interestingly, malls are evolving into experiential hubs, shaping the industry's future with entertainment, dining, and dynamic shopping experiences.

The country’s residential sector is poised to thrive in 2024, backed by robust underlying market fundamentals. We anticipate sales and new property launches to sustain the sector’s buoyancy despite the potential challenges. While the sector is expected to observe divergent asset pricing trends across different markets, the premium and luxury residential segments, priced at INR 2 crore and above, will likely continue flourishing as discerning buyers prioritise spacious homes offering convenient access to essential support infrastructure.

Investment activity is expected to accelerate in H2 2024, driven by ample investor capital following strong exits in 2023. While core sectors such as development sites, office, I&L, and retail will expectedly remain attractive, capital flows will likely expand to data centres, student housing, senior living, flexible workspaces, healthcare, and education. Tier-I cities are anticipated to see the bulk of inflows, but tier-II cities, particularly in retail and I&L, are also poised to rise.

Beyond core sectors, data centres, life sciences, flexible spaces, hospitality, and healthcare exhibit promising trends, further diversifying the real estate landscape in 2024. This report explores these areas in greater detail, along with other relevant considerations, and we sincerely hope you find it highly engaging and helpful.

Office

Following the resilience shown by the office sector in 2023, we anticipate activity to remain upbeat in 2024. India's skilled talent continues to appeal to firms as they expand and consolidate their office portfolio to accommodate their growth plans.

The year that was

01 OFFICE SECTOR EXCEEDS EXPECTATIONS, MARKING SECOND-HIGHEST LEASING POST-2019

Enhanced by robust domestic growth, improved mobility and a resurgence in occupier sentiments, the office sector in India outperformed expectations, witnessing a surge in deals during the latter half of 2023. The office absorption witnessed a growth of 11% Y-o-Y, reaching 64.4 million sq. ft., marking it as the second-highest annual leasing activity since the peak of 66.6 million sq. ft. observed in 2019. This leasing activity was led by Bangalore, Delhi-NCR, Hyderabad, and Chennai, accounting for nearly three-fourth share.

Prominent sectors driving absorption during 2023:

Technology
22%

BFSI
22%

Engineering and manufacturing
14%

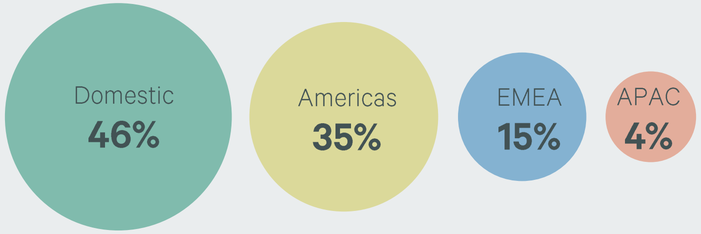
Flexible space operators
14%

02 LEASING OUTPACES SUPPLY DESPITE RESILIENT GROWTH IN SUPPLY ADDITION

During 2023, development completions surged by approximately 15% Y-o-Y, reaching 57.7 million sq. ft. The trio of Hyderabad, Bangalore, and Chennai emerged as the primary drivers, collectively accounting for around 67% of the total completions.

There was an increase in supply across Mumbai, Bangalore, Chennai, Hyderabad, Pune, Kolkata, and Kochi on an annual basis. However, despite that, the sustained growth in leasing activity, coupled with moderating vacancy levels, spurred rental growth across select micro-markets in several cities throughout the year. Notably, micro-markets in Delhi-NCR, Mumbai, Bangalore, Hyderabad, Pune, and Kolkata experienced growth in quoted rentals ranging from 1% to 13% Y-o-Y.

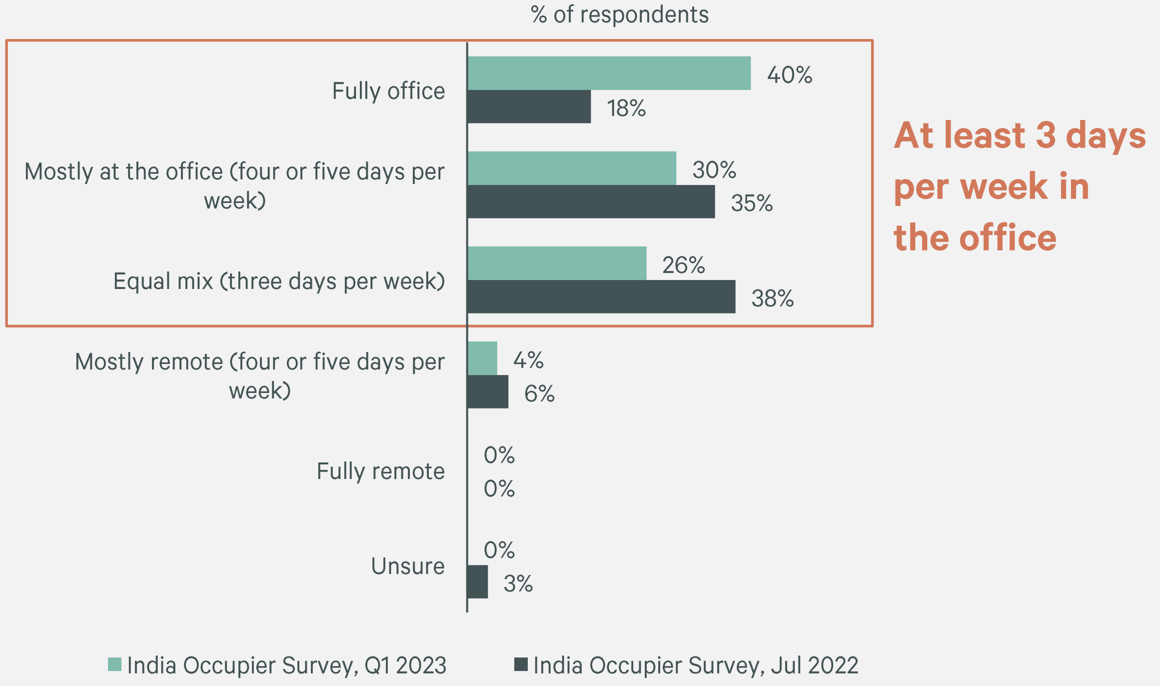
Leasing by domicile during 2023:



‘Return-to-office’ witnesses higher pace

Several occupiers have mandated a specified threshold for the number of days in office. While hybrid working continues to be prevalent, occupiers are considering adopting a firmer stance on bringing employees back to the office. Compared to the technology sector, the banking, financial services and insurance (BFSI) industry exhibits a stronger preference for more days per week in office, although variations exist across organisations.

FIGURE 1.1: Cultural norms with regards to workplace policies that organisations aspire for in a steady state in India



Note: Percentages may not total to 100 due to rounding.

Source: CBRE’s 2023 India Office Occupier Survey, Q1 2023; CBRE’s 2022 India Office Occupier Survey, July 2022; CBRE Research, Q1 2024

Note: These results are limited to those respondents who chose to answer this question and may differ from individual companies on a case-by-case basis due to their scale, type and location of business operations.

Top five trends expected to shape the office sector in 2024

01 DEMAND LIKELY TO REMAIN UPBEAT IN 2024

India's office market is expected to remain positive in 2024, despite global economic concerns. Occupiers would prioritise high-quality office space for expanding and consolidating their operations, while pursuing cost efficiency. Additionally, an increasing rate of return-to-office could further generate pent-up demand. India's inherent advantages, including its skilled workforce and established business ecosystem, further contribute to a promising outlook, with office-based employment in major cities projected to grow 3-5% in 2024*.

- Global capability centres (GCCs) are expected to maintain their dominant share of leasing at 35-40%, driven by expansion of existing operations and entry of smaller firms that are buoyed by India's value proposition.
- While traditional hubs such as Bangalore, Hyderabad, Delhi-NCR, and Mumbai remain attractive, Chennai and Pune are gaining traction due to quality space, talent availability, and economical rentals.
- Sectors such as BFSI and engineering & manufacturing (E&M) are driving growth, aided by India's talent pool, and would fuel demand for large modern office parks as they continue embarking on their digitalisation journeys.
- Growth is expected from flexible workspace providers, research, consulting and analytics firms, and life sciences companies.
- Technology firms, which have been the mainstay of the office sector, are likely to witness growth in the latter half of the year.

* Oxford Economics, February 2024

Strong pipeline of investment grade supply to continue, offering attractive options

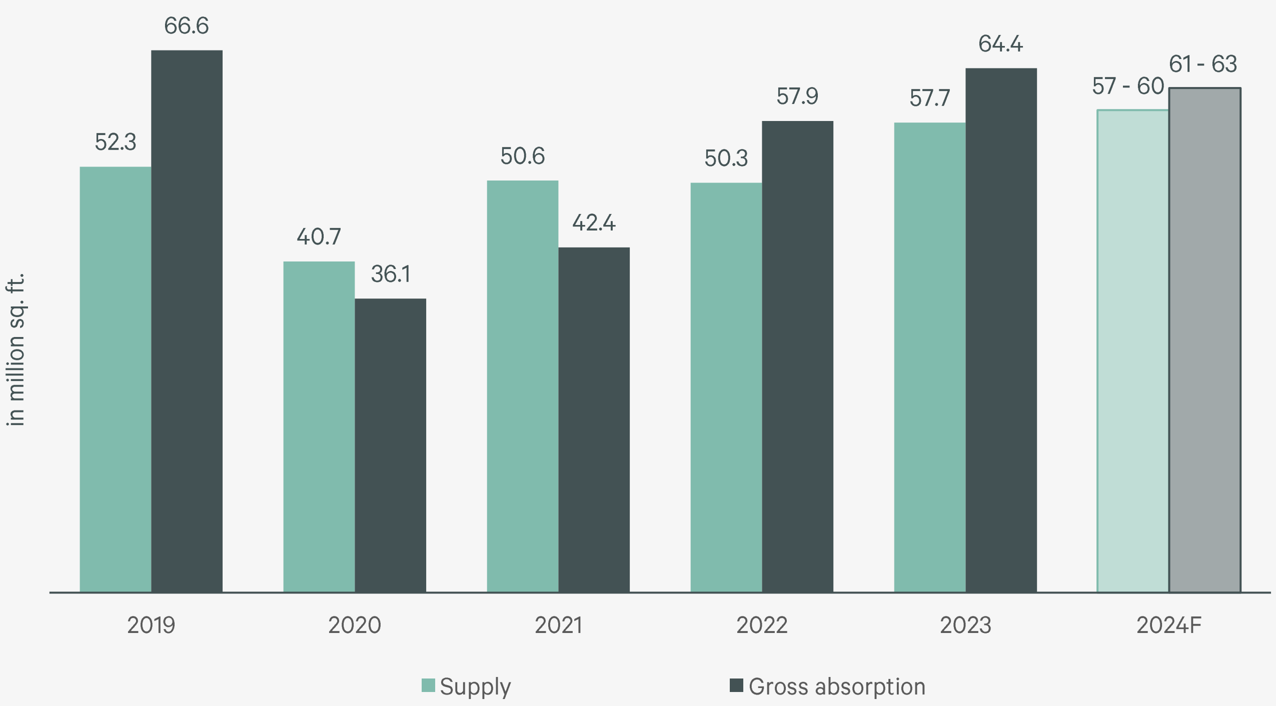
The office market is set for a healthy supply pipeline in 2024, with new completions likely to increase by 3-5% led by high-quality investment-grade assets. Bangalore, Hyderabad, and Delhi-NCR are likely to dominate new completions.

Modern developments : Developers are increasingly focusing on building state-of-the-art facilities with amenities that cater to the needs of modern businesses. Aspects such as access to public transportation, a healthy mix of outdoor green spaces, optimum air quality and F&B[1.1] options would emerge as key criteria for new developments. The share of large-sized[1.2] buildings is expected to grow during the year, signalling the rise of integrated or mixed-use developments.

Sustainability Developers would continue to exhibit their efforts towards sustainability; close to half of the newly completed developments in 2023 were green-certified (LEED or IGBC). The share of such assets in new completions is likely to increase, led by developers' sustainability commitments and occupiers' preference for such properties.

Vacancy: Vacancy rates are expected to remain largely range-bound in 2024 despite sustained supply across cities. Select micro-markets are likely to experience moderate rental growth led by flight-to-quality demand amidst limited vacancy in quality assets. This rental growth is also expected to be driven by oncoming high-quality new developments commanding higher rentals.

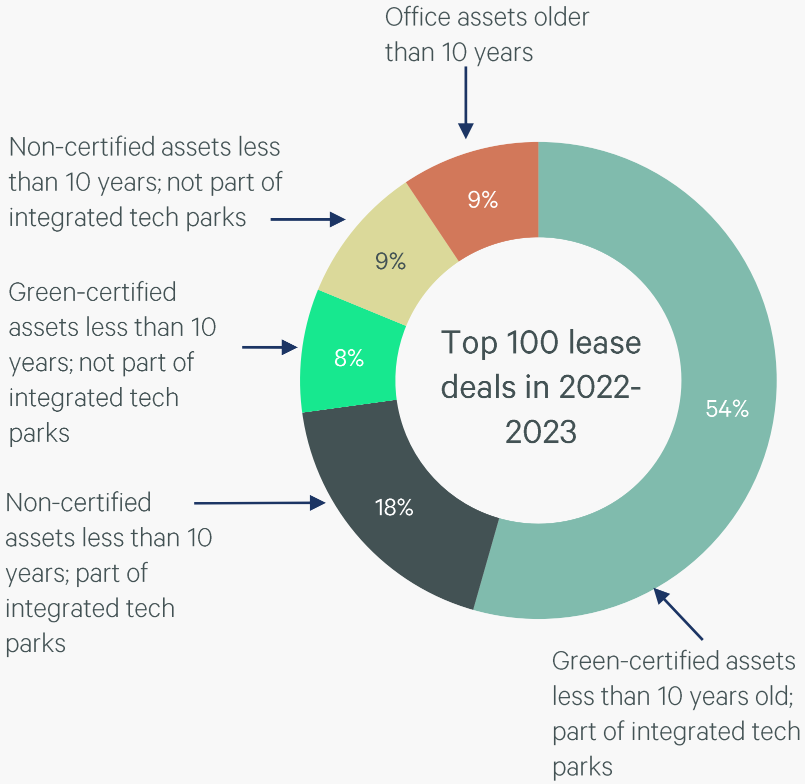
Figure 1.2: Office supply and gross absorption in India (2019-2024F)



Source: CBRE Research, Q1 2024

[1.1] Food & Beverages
[1.2] More than 1 million sq. ft.

Figure 1.3: Large green-certified technology parks: Top choice for occupiers



Source: CBRE Research, Q1 2024

Flight-to-quality leasing to gain further prominence

Occupiers are likely to gravitate towards modern integrated parks that are replete with amenities such as F&B outlets, walkability, outdoor open spaces, ample parking, fitness and wellness spaces, and community events, among others. Between 2022 and 2023, about 72% of the large-sized deals took place in integrated tech parks, with a majority of them in green-certified assets.

Apart from the locational advantage, various factors driving rents in premium office assets

*floor to ceiling ratio, atrium, large floor plates, multi-level car parking

Source: CBRE Research, Q1 2024

SEZ denotifications likely to pave way for newer occupier groups

In December 2023, the Union Ministry of Commerce and Industry amended the Special Economic Zones (SEZ) Rules, 2006, allowing floor wise de-notification of processing area in SEZs into non-SEZs. The amendment also limited the repayment of the tax benefits taken by developers to the actual amount, without any interest. Allowing landlords to demarcate a portion of their SEZ processing area into a non-processing area would allow non-export-oriented firms to set up workplaces in such developments. At the same time, it would provide occupiers a wider array of office spaces to choose from.

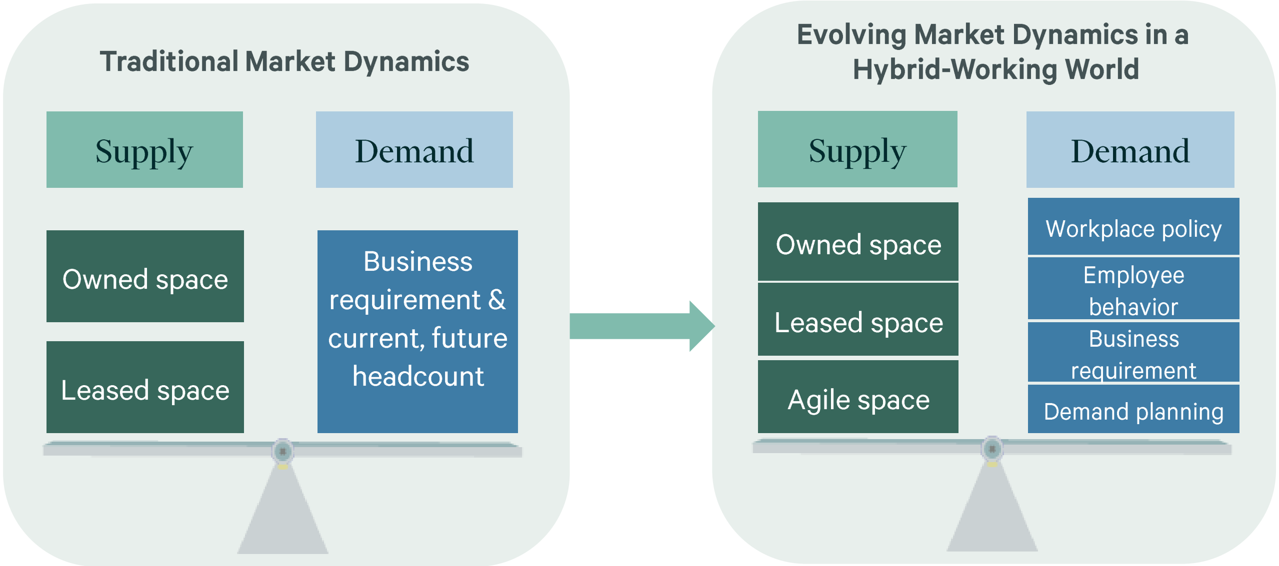
SEZ Office stock in India	SEZ's share in overall office stock in India	SEZ's vacancy
~191 million sq. ft.	~22%	~20%

All data points are as of Q4 2023

Occupancy planning strategies to be at the forefront

India's average office utilisation rates have exhibited a steady climb, rising from about 20-30% in 2021 to approximately 50-60% currently[1.3]. As these rates continue to increase, we anticipate occupiers re-examining their occupancy planning strategies. This reassessment would be driven by a convergence of business needs, evolving workplace policies, and employee behaviours. Occupiers are expected to scrutinise their utilisation rates to optimise space allocation within their offices. This could involve strategically designating areas for collaboration and focused work, huddle rooms, and conference rooms. Additionally, a major focus area for occupiers would be the reassessment of their overall portfolio, considering factors such as lease tenures and the proportion of flexible space utilised.

Figure 1.4: Evolving dynamics in a hybrid environment



Source: 2023-2024 CBRE Global Workplace & Occupancy Insights, 2023; CBRE Research, Q1 2024

Portfolio optimisation strategies under consideration

- Consolidation of multiple offices
- Decongest over-utilized spaces
- Concentrate headcount growth in under-utilized spaces
- Utilizing Flexible spaces for growth
- Decentralisation of offices

[1.3] CBRE's 2023 India Office Occupier Survey, Q1 2023

Source: CBRE Research, Q1 2024

02 SUSTAINABLE BUILDINGS TO EMERGE AS A PRE-REQUISITE FOR OCCUPIERS

In an era of heightened ecological consciousness, occupiers have been prioritising sustainability through various measures such as green-certified buildings, sustainable procurement, water & waste management, and energy efficiency. With benefits ranging from lower operating costs, improved employee health and enhanced brand image, a higher number of occupiers are likely to prefer green-certified buildings for new leases.

Occupiers' commitments

Top 20 office occupiers in India have committed to achieve net-zero before 2050

About 40% of them are targeting net-zero goals by 2030

Energy efficiency is the top priority for all the top 20 occupiers

Tracking carbon footprint has emerged as another key priority, with 95% of the top occupiers taking active steps towards it

To cater to the growing demand for environment-friendly workplaces, India's top developers are shifting their focus towards constructing green-certified office spaces. Currently, about 45% of the total office stock is green-certified, with the share of certified new supply being higher than non-certified supply since 2018. We expect this trend to sustain over the coming years, with the proportion of sustainable buildings further rising.

Source: CBRE's Sustainability: The Key to Future-proofing Real Estate, 2024; CBRE Research, Q1 2024

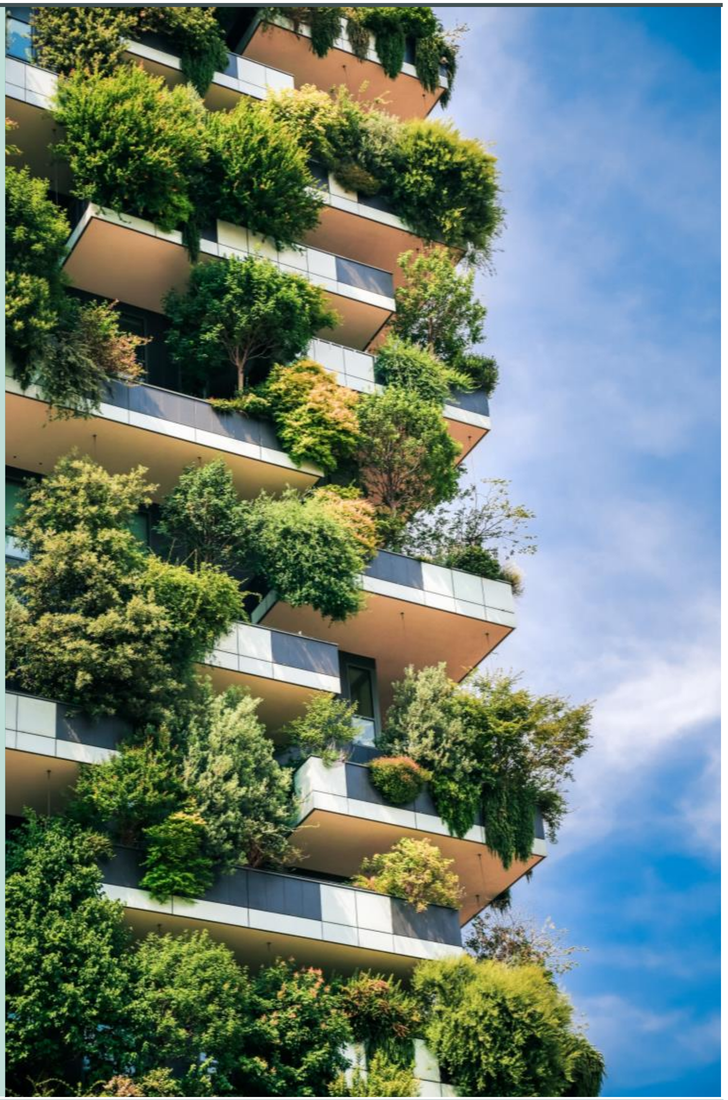
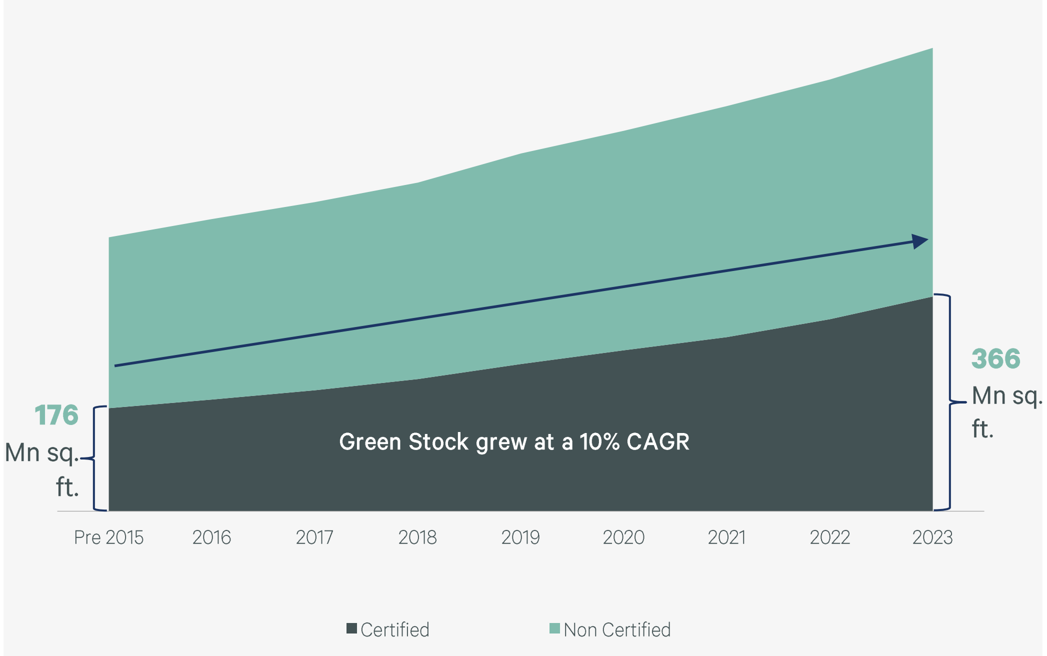
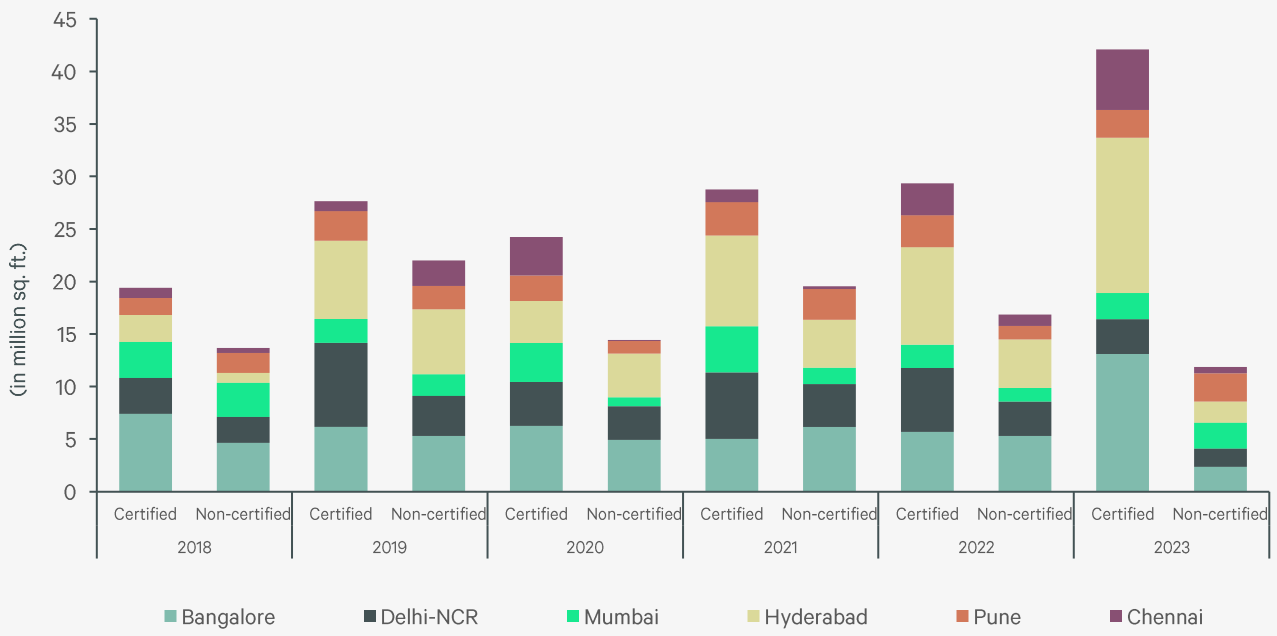


Figure 1.5: Increasing share of green-certified stock



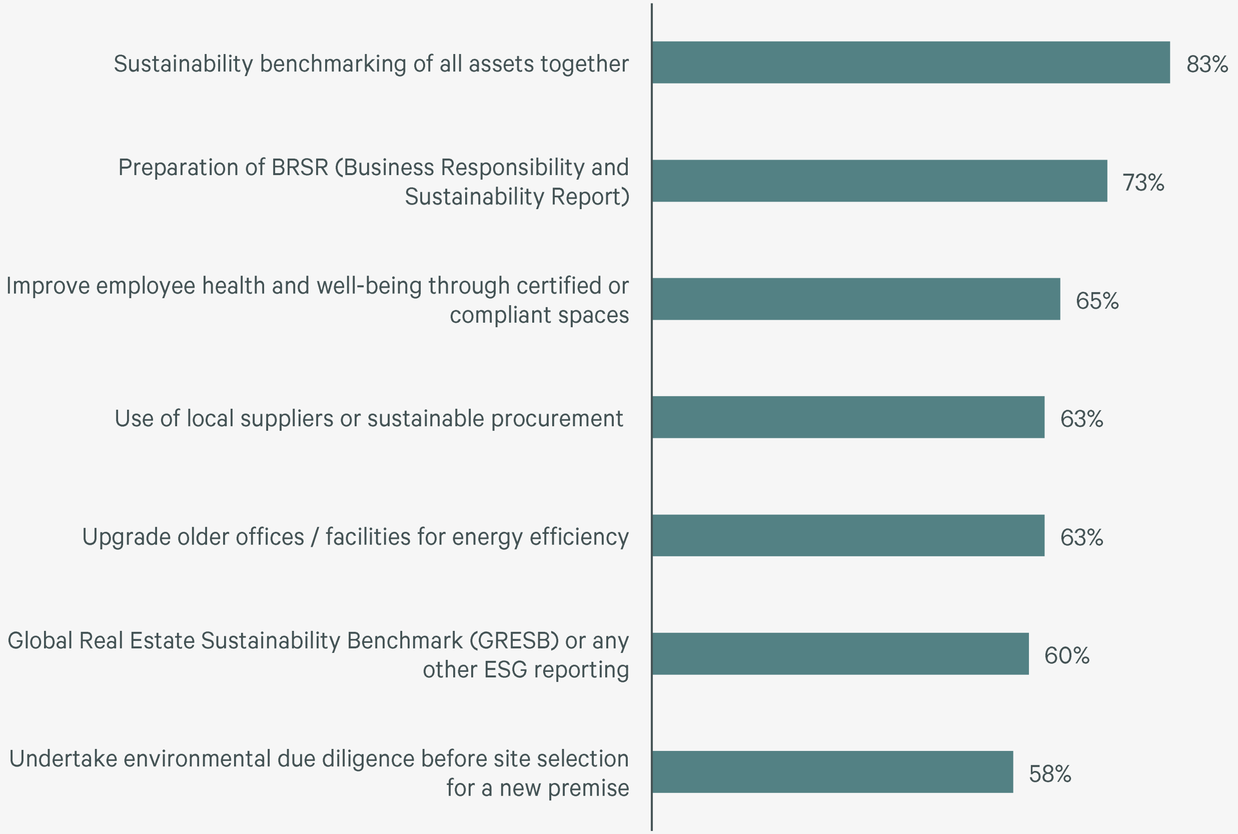
Source: CBRE's Sustainability: The Key to Future-proofing Real Estate, 2024; CBRE Research, Q1 2024

Figure 1.6: Green incoming supply outpacing non-certified new spaces



Source: CBRE's Sustainability: The Key to Future-proofing Real Estate, 2024; CBRE Research, Q1 2024

Figure 1.7: Future sustainability considerations for occupiers in India



Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE Research, Q1 2024

Rejuvenating existing buildings
With rising demand for certified office buildings, developers are likely to focus on retrofitting their existing office buildings in a bid to remain relevant and maintain rentals. Some initiatives for green retrofitting include energy efficiency, water efficiency, green roofing, and building automation systems.

Figure 1.8: State initiatives: Promoting sustainability

STATE	CAPITAL				BUILDING			POWER				
	Stamp Duty Waiver	Total Fixed / State Capital Subsidy	Registration Fee Waiver	Financial support / Reimbursement of certification	Additional FSI/FAR	Infrastructure subsidy	Land allocation support	Electricity Duty Waiver	Exemptions on the manufacturing cost of electricity	Solar Energy	Wind and Hybrid Energy	Renewable Energy
Maharashtra	–	✓	–	–	✓	–	✓	–	✓	–	✓	✓
Karnataka	✓	✓	✓	–	–	–	–	✓	✓	–	✓	✓
Telangana	✓	✓	–	✓	–	✓	–	✓	✓	–	✓	–
Tamil Nadu	–	✓	–	✓	–	–	–	–	✓	✓	–	–
Andhra Pradesh	✓	✓	–	✓	–	–	–	✓	✓	–	–	–
Delhi	✓	✓	–	–	–	✓	–	✓	✓	✓	–	–
Haryana	✓	✓	✓	–	✓	✓	✓	✓	✓	✓	–	–
Uttar Pradesh	–	–	–	✓	✓	–	–	–	–	✓	–	–
Gujarat	–	✓	✓	✓	–	–	✓	–	✓	✓	✓	–

Source: CBRE's Sustainability: The Key to Future-proofing Real Estate, 2024; CBRE Research, Q1 2024

✓ The state government's allocation of incentives in various forms

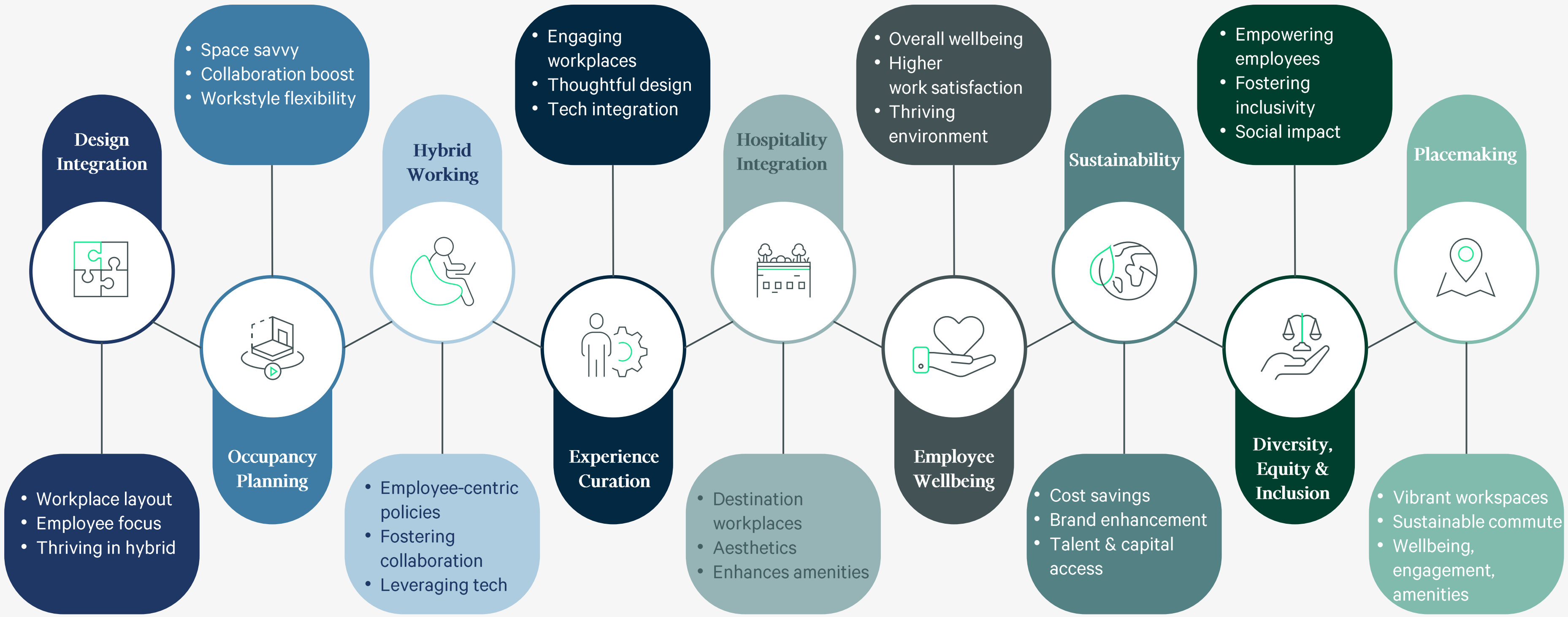
– No allocation by the state government

03 CURATING EXPERIENCES FOR EMPLOYEES AT THE FOREFRONT

Hiring and retaining the best talent is an important consideration for global and domestic corporates alike. Post the disruptions caused by the pandemic, most firms are grappling with bringing staff back to offices as well as navigating the skilled-talent supply-crunch. With office occupancies improving and the workplace evolving as a space for collaboration and ideation, firms are investing heavily in creating bespoke and engaging workplace experiences. Occupiers are likely to invest in the creation of experiential workplaces that foster collaboration, enhance productivity, and promote well-being. This involves developing high-quality assets with desirable amenities which create a vibrant and engaging environment.

At the same time, landlords are likely to undertake measures to aid tenants and employees. Ease of commute, access to public transport, and curating experiences for employees are some aspects that landlords are likely to initiate.

Figure 1.9: Key tenets of employee experience in the workplace



Source: CBRE Research, Q1 2024

Beyond office amenities, a vibrant district around the workplace plays a crucial role in attracting employees back. Landlords, occupiers, and government bodies can collaborate to create engaging building activations and community events, enhancing the overall value proposition of office tenancy and fostering a sense of belonging and connection for the workforce.

04 A SHIFT IN DEMAND DYNAMICS FOR THE OFFICE SECTOR

The rise of multi-sector demand

Economic growth and strategic policies are driving a dynamic transformation in India's office sector. This positive environment has attracted diverse industries, leading to a well-rounded demand for office space beyond the traditional dominance of the technology corporates.

While the office sector continues to be led by the technology firms, BFSI and E&M companies are taking a significant share in leasing, driven by digitalisation efforts. The digital push across industries is fuelling hiring, particularly in the BFSI and E&M sectors. This is bringing in an influx of talent in areas such as digital infrastructure management and financial services. In the E&M sector, companies from the semiconductor space and oil & gas sector would see greater upside to upgrading their technology interfaces and expanding in India.

Beyond the traditional industry sectors, the office market is poised to benefit from the expansion of research, consulting & analytics firms, flexible work operators, aerospace and automobile firms.

Source: CBRE Research, Q1 2024

Figure 1.10: Industry sector growth projections

Sector	Growth projection	2023 absorption compared to 2022	2023 vs 2022 (% change): Transaction volume	2023 vs 2022 (% change): Number of transactions	2023 vs 2022 (% change): Average deal size
BFSI	**USD 150 bn** Size of fintech industry by 2025[ii]; **USD 1 tn** Investment by 2025 in insurance sector[ii]	▲			
Technology	**USD 254 bn** Tech revenue to see 3.8% Y-o-Y growth in FY2024, an addition of USD 9 bn over last year[i]	▼			
Engineering & manufacturing	**USD 1 tn** Worth export capacity of goods by 2030[ii]	▲			
Flexible space operators	**USD 2.15 bn in 2024** Estimated India Flexible Office Space Market size; expected to be USD 3.04 bn by 2029[iii]	▲			
Research, consulting & analytics	Indian analytics industry is expected to reach **USD 16 bn by 2025**, and may account for 32% of its worldwide market[i]	▼			
Life sciences	**USD 130 bn** Indian pharma industry market size by 2030[ii]	▲			
Infrastructure, real estate & logistics	**USD 1 tn / USD 5.8 tn** Real estate sector size by 2030 / 2047[ii]	▼			
Media & Marketing	**USD 100 bn by 2030** India's Media & Entertainment industry is expected to grow at 10-12% CAGR, led by OTT, Gaming, Animation and VFX[iv]	▲			

Source: [i] NASSCOM; [ii] IBEF; [iii] Mordor intelligence; [iv] investindia.gov.in

Y-o-Y % change: -25 to -50% | 0 to -25% | 0% | 0-25% | 25-50% | 50-75% | 75-100% | >100%

Office demand transitioning beyond top cities

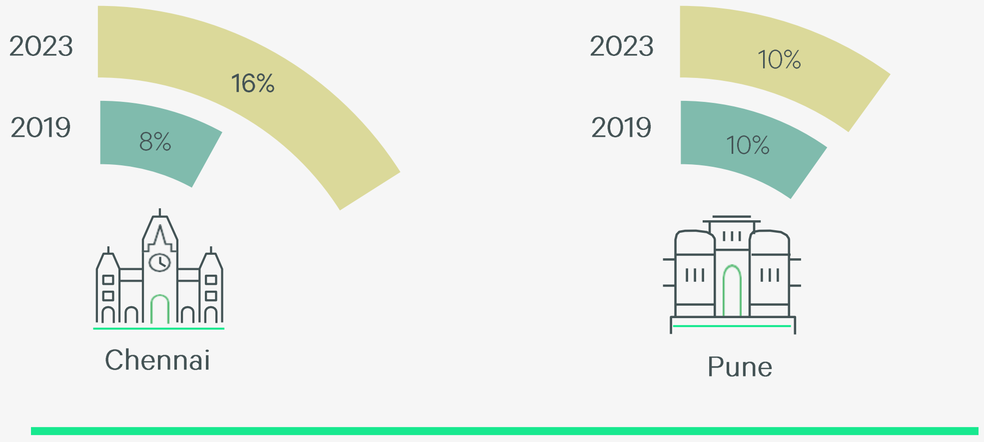
Demand is also transitioning beyond major cities. Cities such as Chennai and Pune are experiencing a surge in activity due to:

- **Readily available talent pool**: Offering access to both fresh graduates and experienced professionals.
- **Improved infrastructure**: Enhancing accessibility and connectivity.
- **Competitive rentals**: Providing cost-effective solutions for businesses.

This trend is not sector-specific, attracting both tech and non-tech companies. Proactive state governments are further bolstering the attractiveness of these markets.

Tier-II cities too are positioned to benefit, with CBRE anticipating a rise in GCCs in select tier-II cities. However, this shift hinges on a consistent talent supply and a robust business ecosystem.

Figure 1.11: City's share in overall India leasing



Source: CBRE Research, Q1 2024

Domestic firms to hold their sway in office demand

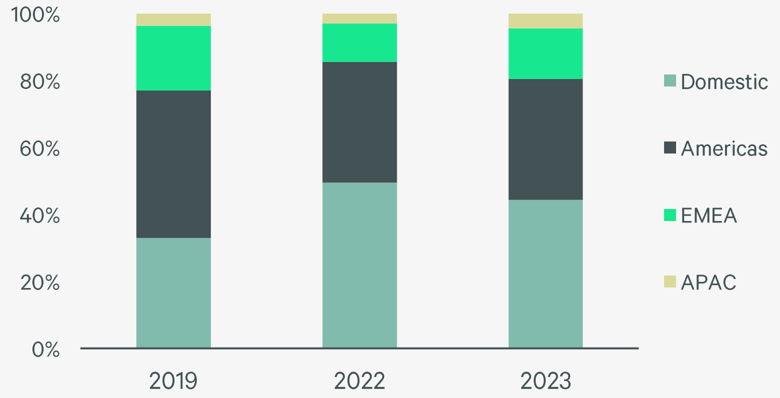
Fuelled by the country's robust economic growth, domestic companies are emerging as a potent force in the demand for office space. This is driven by a period of financial buoyancy and a well-capitalised financial system, empowering domestic companies to invest in expansion and solidify their market presence.

Table 1.1: Domestic firms' growth enablers

Growth in Indian economy upwards of 6.5% [1.4]	Revival in corporate credit offtake to drive earnings of the banking sector	Revenue growth of 9-10% in 2024-25 in India's IT sector, backed by pent-up demand for services and impact of adopting generative AI[1.5]

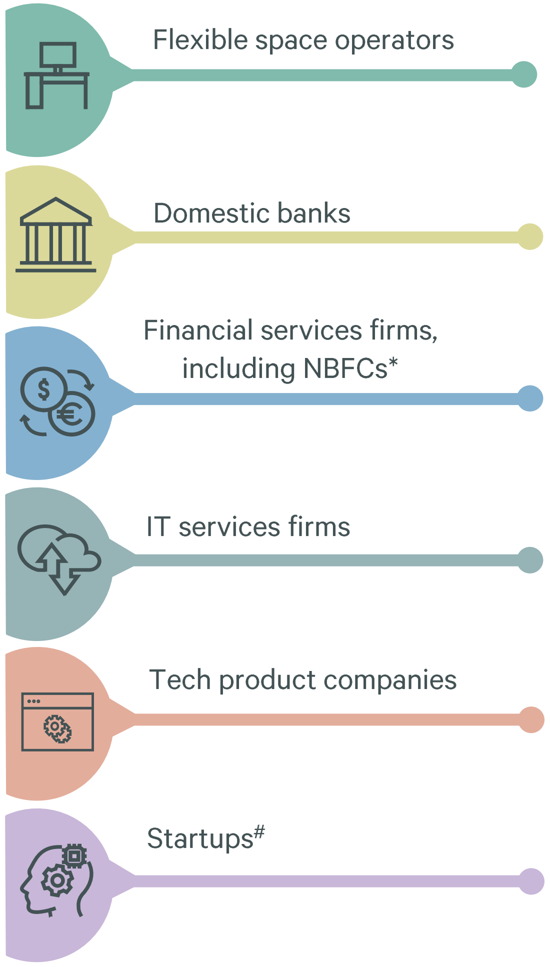
Source: CBRE Research, Q1 2024

Figure 1.12: Office absorption as per domicile (Pre vs Post-COVID viz., 2019 vs 2022-2023)



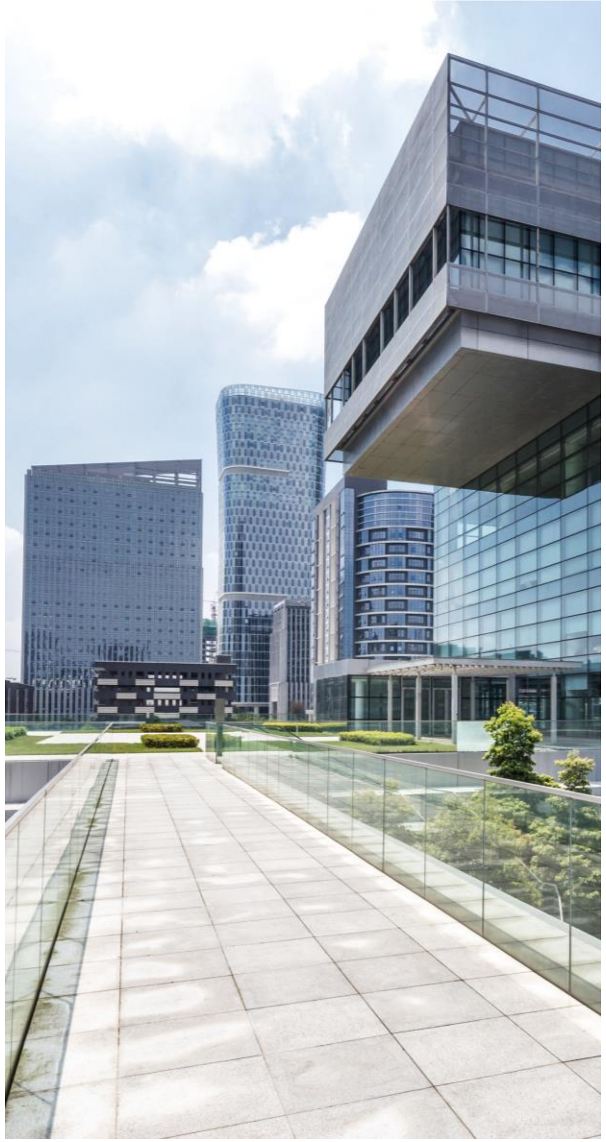
Source: CBRE Research, Q1 2024

Figure 1.13: Domestic occupier groups that are likely to expand portfolios



*NBFCs – Non-Banking Financial Companies

Startups from fields such as fintech, edtech, and e-commerce



[1.4] Moody's estimates, Feb 2024; [1.5] Goldman Sachs Update, August 2023

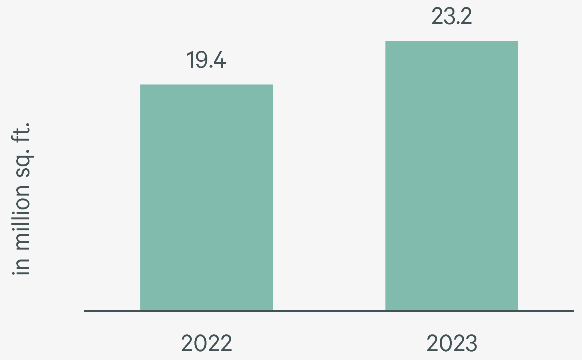
05 GCCS TO CONTINUE FUELLING OFFICE MARKET'S EXPANSION

GCCs have emerged as a significant driver of transformation in India's office market. These global centres have steadily expanded their footprint in the country, contributing a remarkable 36% of the total office space absorption in 2023. This trend is projected to continue, making India a prominent growth market for GCCs in the coming years.

Several factors are powering this growth:

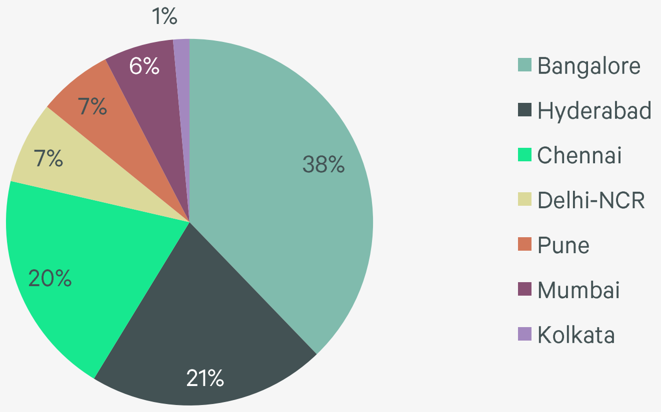
- **Enhanced skilled workforce**: India boasts a large pool of skilled professionals, making it an attractive location for GCCs to establish or expand their operations.
- **Strong performance:** Existing GCCs in India are encouraged by the success of their current facilities, driving them to expand further.
- **Cost-effectiveness**: India's competitive costs, viz., for talent and rentals, offer businesses a compelling value proposition.
- **Digital and tech focus**: The market is expected to see an influx of small to mid-sized firms seeking to upgrade their digital capabilities and expertise in areas such as artificial intelligence (AI) and machine learning (ML).

Figure 1.14: GCC leasing in India (2022, 2023)



Source: CBRE Research, Q1 2024

Figure 1.15: City-wise share in GCC leasing (2023, %)



Source: CBRE Research, Q1 2024

Figure 1.16: India's talent upside

~5.4 million
Tech talent pool

~1.66 million
Employed in captives

~400,000
Fresh graduates

Average salary is **1/10th** of **US / Western Europe**

Source: CBRE India's Global Capability Centres - Charting a New Technology Era, 2023; CBRE Research, Q1 2024

Figure 1.17: Growth of GCCs over the years

	2017-2019	2020-2022	2023-2025F
No. of operational GCCs	~1250*	~1580#	~1900
GCC talent base	~1.3 mn*	~1.66 mn #	~2.0 mn
GCC share in overall leasing	30-35%	38-43%	35-40%
	Leading sectors	**Leading sectors**	**Emerging sectors**
	Tech	Tech	Life science
	BFSI	E&M	Automobile
	E&M	BFSI	Aviation

By 2025, the number of operational GCCs is expected to expand by 20%

CBRE projects significant leasing by GCCs at 40-45 million sq. ft. between 2024 and 2025[1.6]

Growth to be driven by companies establishing large campuses to strengthen presence

Emerging sectors such as life sciences, automobiles, aviation to join the expansion wave

The gradual upskilling of talent in existing as well as new roles and greater synergies between the private sector and educational institutions would continue to drive value creation in India. Consequently, the country is likely to witness more sophisticated GCCs going ahead. Emerging sectors such as life sciences, automobiles, aviation, and electronics are also poised to join this expansion wave. This anticipated growth would result in an increase in leadership positions within these GCCs, further cementing their role as strategic centres crucial to an organisation's overall growth.

Source: CBRE Research, Q1 2024

[1.6] CBRE India's Global Capability Centres - Charting a New Technology Era, 2023; * Nasscom-Zinnov GCC 3.0 Spotlight on digital partnerships, new delivery models & future skills, May 2019; #Nasscom GCC 4.0: India redefining the globalization footprint, June 2023,

Watch out for

Portfolio optimisation

As occupiers operationalise hybrid working and bring back employees to the office, they would reassess their portfolio for greater efficiencies.

Flight-to-quality leasing

Space uptake of occupiers would be tilted towards better-quality office buildings replete with modern amenities.

Enhanced employee experience

As office occupancies improve and the workplace evolves into a hub for collaboration, firms are likely to invest in creating bespoke and engaging workplace experiences.

Flexible Spaces

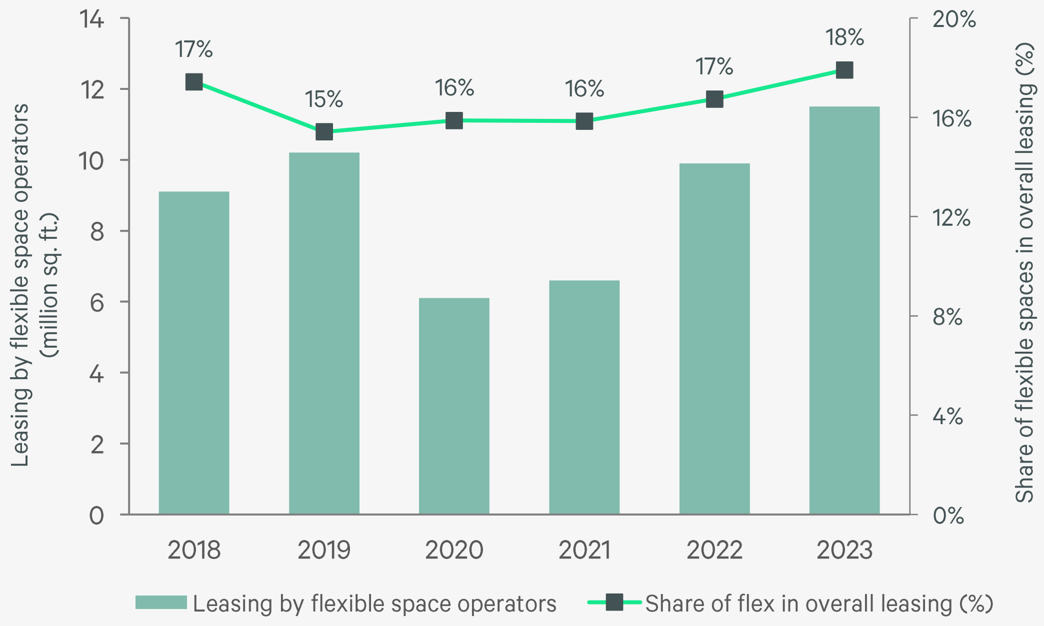
Flexing forward: India's flex office market set to soar

Flexible workspaces have emerged as a cornerstone of modern work culture, aiding varied working styles and bringing in flexibility into the office market.

The rise of hybrid work models, capital intelligence, need for flexibility in leases, and a shift in work culture are fuelling the transformation towards flexible spaces. This has resulted in demand from diverse segments, from start-ups, small and medium-sized enterprises (SMEs) to large corporations. These organisations are actively integrating flexible spaces into their office portfolios as part of their 'Core+Flex' strategies, with managed offices and enterprise co-working requirements witnessing particularly high demand. 'Core+Flex' allows occupiers to be more financially efficient, while still providing employees with a consistent experience and company culture along with the flexibility to work from different locations.

In the dynamic environment of hybrid working, the modern offices are transforming into collaborative hubs, seamlessly merging the physical and digital worlds through technology. This necessitates that flexible workspace designers strike a balance between dedicated and open areas, effectively catering to the diverse needs of users and fostering a thriving work environment

Figure 2.1: Historic flex leasing trend (2018-2023)*



Source: CBRE Research, Q1 2024

Note: *Includes top nine cites – Delhi-NCR, Mumbai, Bangalore, Chennai, Hyderabad, Pune, Kolkata, Kochi and Ahmedabad

Over
200,000 Workstations
leased by occupier clients in flex spaces in 2023*

Flexible space stock* stands close to
64 million sq. ft.,
with more than half of the stock in Bangalore and Delhi-NCR[2.1]

Flexible space stock has the potential to touch
80 million sq. ft.
by 2024[2.2]

2.1. CBRE India Research, Q1 2024; 2.2. Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

EXPLORING TIER-II CITIES: THE NEXT FRONTIER FOR FLEXIBLE OFFICE SPACES

Tier-II cities are emerging as the next frontier for flexible spaces as these cities strive to meet the evolving needs of businesses.

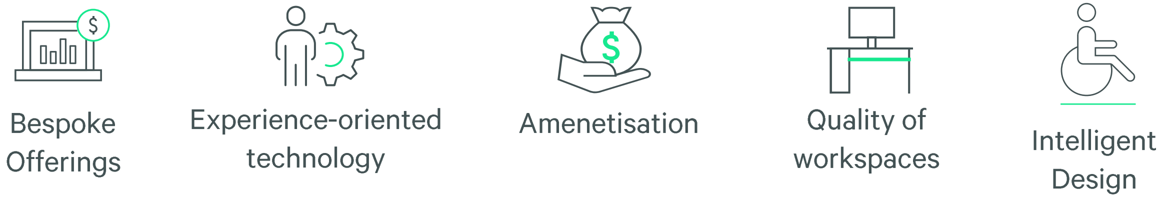
The smaller cities are emerging as the new growth engine for the office sector, fuelled by a flourishing talent pool, competitive real estate costs, and continuous infrastructure improvements, making them attractive destinations for business expansion. With a current flexible space stock# of over 3.6 million sq. ft. in tier-II cities, flexible space operators are seizing the untapped potential of these markets, rapidly expanding their presence to offer diverse options for both start-ups and established businesses[2.3].

WHAT NEXT FOR THE FLEXIBLE SPACE SECTOR?

India maintains its position as the fastest-growing flexible office market in the world with a total stock of about 68 million sq. ft^.

The demand for quality workspaces with facilities for well-being and hygiene would continue to rise, driven by both large enterprises and start-ups, benefitting flexible space operators. Strategically located workspaces with flexible lease terms and the ability to offer customised solutions would continue to garner activity.

Figure 2.2: Differentiating factors for flexible space operators



Note: *Includes top nine cites – Delhi-NCR, Mumbai, Bangalore, Chennai, Hyderabad, Pune, Kolkata, Kochi, and Ahmedabad; #Tier II flex stock does not include Kochi and Ahmedabad as their stock has already been accounted for in the top nine cities.

^Includes top nine cities and tier-II flex stock

2.3. CBRE's The Office Sector's Ascent: Tier-II Cities on the Horizon, Q1 2024

Looking ahead

Large enterprises expected to **increase the proportion of flexible space** in their overall office portfolio

An increasing number of occupiers may prefer signing a **single contract with a single operator** for all their flexible space requirements

Operators to further increase focus on **occupier safety** and **experience-oriented tech**

Operators likely to penetrate and **expand into tier-II / III cities** owing to an increasing demand from corporate enterprises

Operator tech stack, products & service quality, location network, asset quality and pedigree of strategic investors to act as key differentiators

Landlords expected to provide flex solutions through own entity or via **partnerships with leading flex operators**

Headcount volatility, distributed / hybrid working, and capital efficiencies expected to be key demand drivers for flexible workspaces

Increasing demand for flexible space solutions in India likely **to strengthen investor confidence in the sector**

The popularity of **coworking** and **managed office solutions** expected to keep growing alike

Source: CBRE Research, Q1 2024

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