

# Flexing the Workplace

Back to Office

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# Flex spaces: An overview

## Offers design and lease flexibility

Indian office sector went through a radical change during the last decade as it transitioned from a conventional set-up of office space to a more collaborative approach. New-age flexible spaces can be customized as per the specific needs of occupiers and provide greater flexibility at a lesser cost. Amidst global headwinds, the agility inherent in flexible spaces, allows businesses a cautious means to navigate the prevailing challenges at optimal cost and space utilization. Illustrating this evolving trend, a recent comprehensive survey underscores that 64% of respondents demonstrate a distinct preference for managed office spaces, reflecting a departure from conventional shared office spaces. This transition signals a paradigmatic departure from the old norm towards dynamic, flexible workspace alternatives.

Shared office space concept is relatively new in India compared to more mature flexible workspace markets in developed countries. Wider adoption of flexible spaces in India started in 2015-16 when the market was fragmented and unorganized. However, it has since grown rapidly and become more organized. Flexible spaces are garnering significant attention not only from startups and SMEs but also from large enterprises.

In terms of market metrics, the flexible office space inventory in India has surpassed the 50 Mn sq ft milestone, with projections indicating a growth to 81 Mn sq ft feet by 2025. Furthermore, flexible office sector is projected to constitute around 25% of the overall office space absorption by 2025. Bolstered by increasing support from private equity investments, flexible operators have experienced consistent growth, particularly in key regions such as Bengaluru and the National Capital Region (NCR).

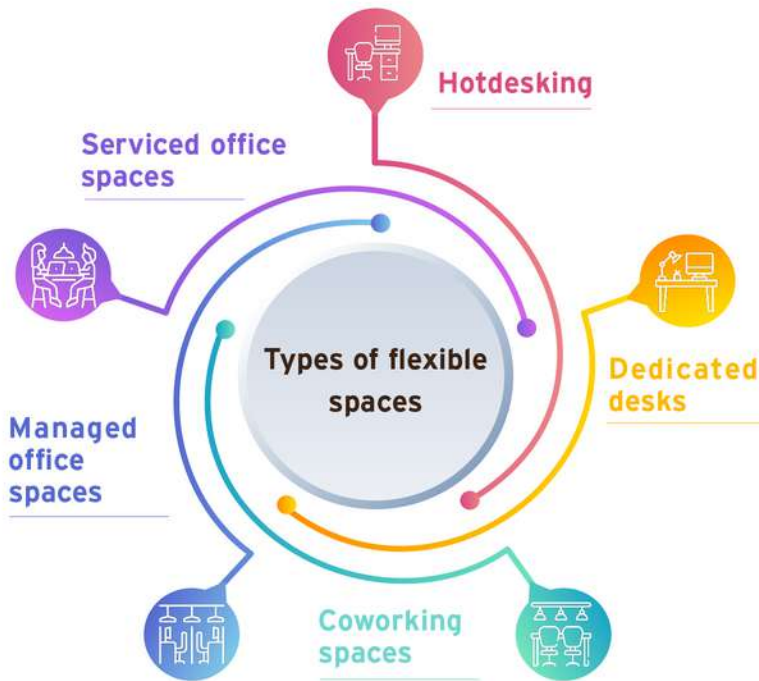
Flexible spaces broadly include dedicated desks, hotdesking, coworking spaces, serviced and managed office spaces. While coworking centres are at the most flexible end of the spectrum, managed offices would be at the less flexible end.



Core+Flex concept is gaining traction among occupiers as it provides a seamless way to integrate traditional leased space and flexible office arrangements into their portfolios."

# Classification of flex spaces

Flexible spaces are at nascent stage in India; growing rapidly



**Dedicated desks:** Dedicated workstations are allocated to employees with private storage. The space is fixed for a person and all the amenities along with the space are available for consumption.

**Hotdesking:** A mode where desks are allocated when required, rather than a dedicated desk. The aim is to maximize space efficiency and optimize real estate space requirements.

**Coworking spaces:** These are shared office spaces with an open-concept layout that offer a wide variety of seating options to groups of start-ups, creative consultants, freelancers, and SMEs. These spaces promote networking with other fellow members from different companies.

**Serviced office spaces:** It offers businesses a way to flexibly rent commercial space with affordable terms. It has a reception desk, open-plan workstations, and break-out zones, with the majority of the space utilized as private office space, meeting rooms, and boardrooms.

**Managed office spaces:** A vacant set-up that is managed by a third-party service provider but offers customized office solutions according to the company's business needs, budget, and branding. While tenants have to pay for the entire office space instead of a pay-per-desk format, it provides the freedom to manage costs and level of privacy.

## What is your preferred type of flex office model?



Hotdesking  
Negligible



Managed office space  
64%



Shared office space  
22%



Subscription model  
14%

Source: Online and offline survey, Compiled by Vestian Research

Majority of respondents (64%) prefer managed office spaces for work as this arrangement of leasing private office space for employees helps to maintain company culture. Managed office spaces are also cost-effective for employers due to provision of few shared amenities.

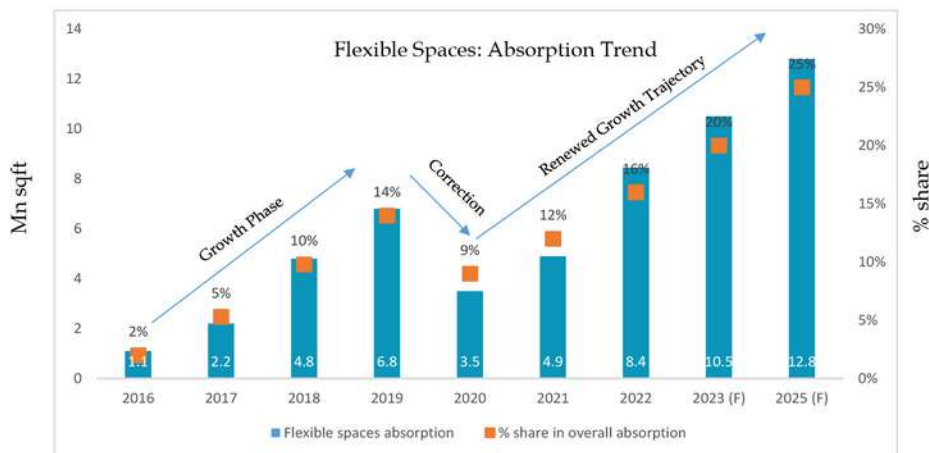


As the name suggests, flexible spaces are dynamic office spaces that provide utmost flexibility to their clients in terms of lease terms and design. These spaces enable clients to save costs by sharing common areas such as reception areas, meeting rooms, and kitchen with other tenants. However, these spaces can also have separate areas for different tenants, but are all managed by third-party flexible office operators."



# The journey so far

Flex spaces are on an upswing, COVID-19 catalyzed the growth



Source: Vestian Research

**Growth Phase:** Post-2015, the term 'shared economy' emerged in India and became the success mantra for various businesses. India's office market also leveraged it to optimize cost, which gave birth to flexible spaces. Flexible office market has grown from a mere 2% in 2016 to 14% in 2019. Several new players such as WeWork, Awfis, SmartWorks, Innov8, IndiQube, MYHQ, Cowrks, etc. started their operations which led to a well-organized market. Additionally, market consolidated during this period of growth, further shaping the landscape of the industry.

**Correction:** The COVID-19 pandemic disrupted the flexible office market as the basic premise of sharing was questioned. Many businesses worldwide opted for work from home to contain the virus which directly led to subdued leasing activities across markets and segments. Flexible office market was impacted the most as businesses were concerned about the health and safety of their employees in shared spaces. Also, occupiers had an easy exit from their lease terms due to the lenient nature of agreements between occupiers and flexible space providers.

**Renewed Growth Trajectory:** COVID-19 pandemic applied temporary brakes on the growth of flexible spaces across markets. However, large flexible space operators' ensured safety and security of their tenants which led to renewed growth trajectory for the asset class. As the pandemic receded, businesses shifted their focus from safety and security to cost optimization in case of such an unprecedented crisis. Meanwhile, flexible space operators' provided what clients' were looking for - low cost, flexibility, and technologically advanced spaces. This led to the sudden popularity of flexible spaces which may continue further amid global uncertainty.

## From where are you working now?



Work from home

19%



Hybrid - shared  
office space

18%



Hybrid - own  
office space

23%



Work from own  
office space

40%

Source: Online and offline survey, Compiled by Vestian Research

Nearly 40% of the respondents are working from their company-owned office space which provides a huge upside potential to flexible office spaces. Respondents working from their company-owned office space under a hybrid set-up could be an easy win for flexible operators.



Flexible spaces are likely to be first preference for businesses that are searching for flexibility, cost optimization, and better work-life balance for their employees. While 2023 is likely to be a challenging year for businesses amid macroeconomic uncertainty and fear of recession, flexible spaces in the overall absorption may grow to 25% by 2025 from 16% in 2022."



# Flex spaces: Driving office sector forward

The stock crossed the 50 Mn sq ft mark, estimated to touch 81 Mn sq ft by 2025

## Supply: A Snapshot

Stock  
**53.4 Mn sq ft**

Avg. Size of a Flex Space Transaction (H1 2023)  
**~32,500 sq ft**

Number of Flex Spaces in India  
**1,000+**  
(74% from top 10 flex operators)

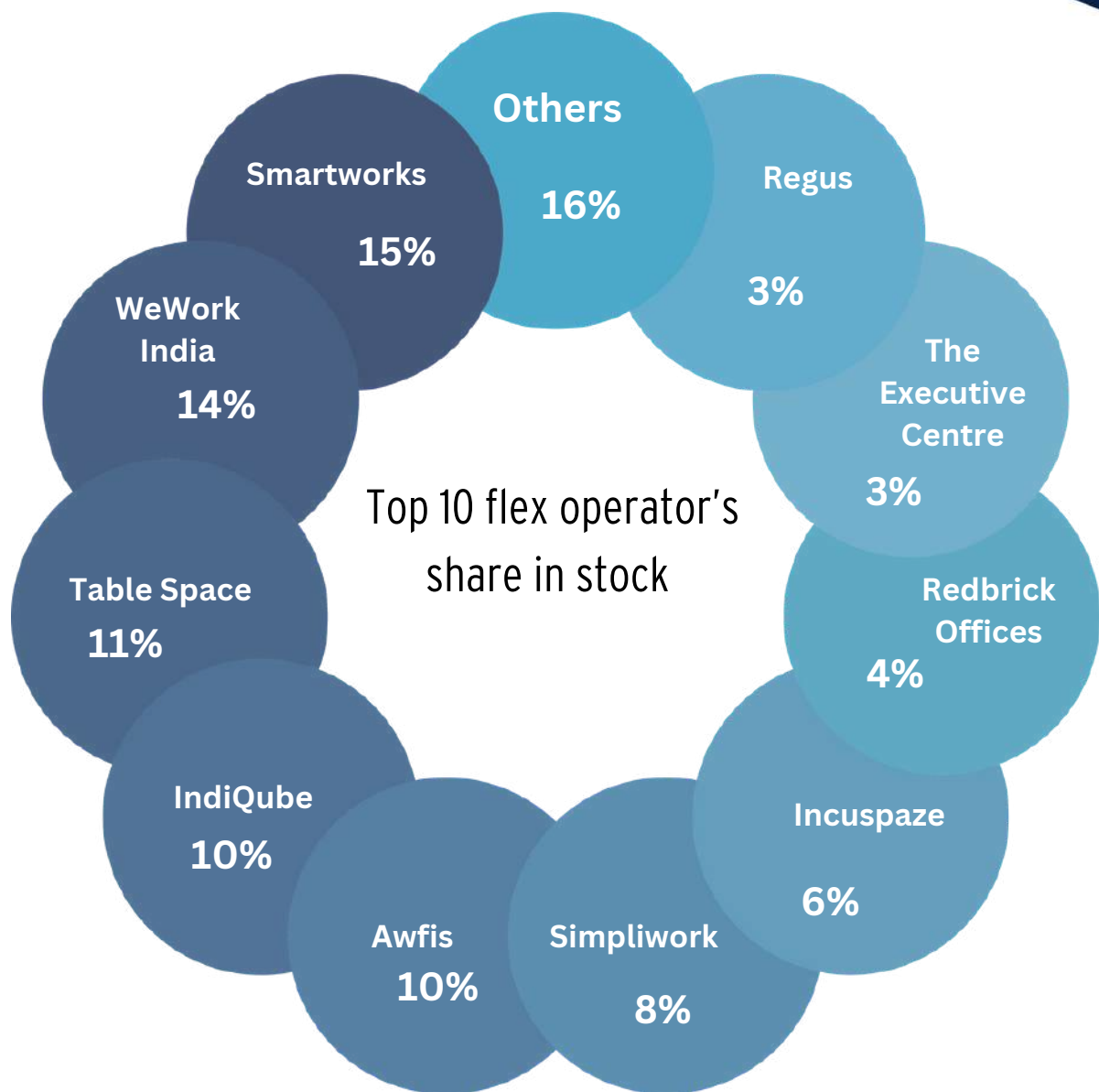
Number of Seats  
**7.6+ Lakh**  
(~71% from top 10 flex operators)

Major Flex Space Providers in India  
**50+**

Expansion Plans from Major Flex Space Providers  
**28+ Mn sq ft**  
addition by 2025

While flex spaces crossed the 50 Mn sq ft mark, it only accounts for 7% of the total office stock across the top cities of India. Recent growth trajectory showcases bright future for flex spaces in the country. Over 7.6 lakh seats are available with flex operators spread across more than 1,000 centres in India.





Source: Compiled by Vestian Research from company websites and media articles

Start-ups and SMEs have contributed significantly to the growth of flex spaces in the past couple of years. However, the demand is gradually shifting towards large enterprises post-pandemic due to flexibility and cost advantage. Presently, there are 50 major operators in the flex space market, out of which the top 10 flex operators account for nearly 84% of the total flex stock in India. SmartWorks topped the chart with 15% share, followed by WeWork India at 14%.

## Top 10 flex destinations in India



Flex operators are known for providing office space at premium locations along with world-class amenities at affordable rates. As a result, majority of the flex spaces are present at premium office destinations in the city to cater to the demand for small ticket sizes.



## ***What is the most crucial factor for you while returning to the office?***



**Location of office space**

**46%**



**Feel like home design**

**15%**



**Health & safety**

**17%**



**Robust infra and amenities**

**22%**

Source: Online and offline survey, Compiled by Vestian Research

Nearly half of the respondents consider office location to be a top priority while returning to the office. Flexible spaces provide an opportunity to bring back the employees to the office by distributing office spaces across cities and within city limits.



## What is your preference for office space location?



Centralized office in a metro city

47%



Small offices in a metro city

7%



Small offices in tier-2 cities

13%



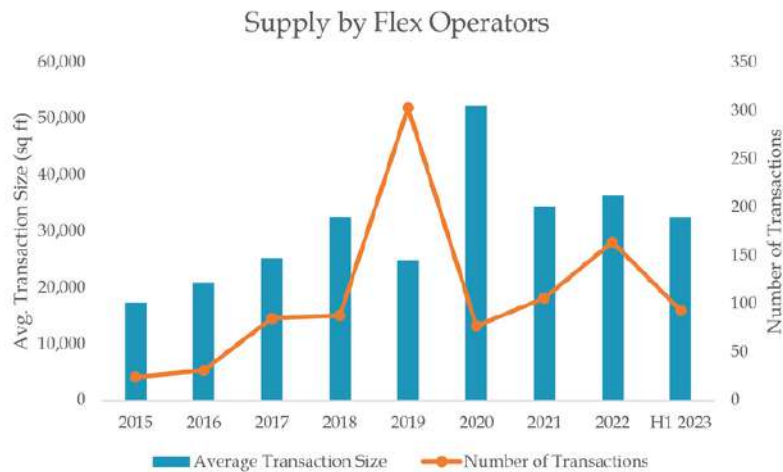
Flex space in any city

33%

Source: Online and offline survey, Compiled by Vestian Research

While majority of the respondents prefer to work from a centralized office in a metro city, nearly 33% choose to work from flexible spaces in any city.

## Flex operators are on a supply spree to cater to the increased demand



Note: The chart depicts the space taken up by flex operators in various Grade A buildings for leasing  
Source: Vestian Research

Flex operators gradually increased their portfolio in the past couple of years to cater to the increased demand. While the number of transactions peaked in 2019, the average size of transaction was less than 25,000 sq ft. In 2020, the average size of transaction more than doubled compared to the previous year. However, the number of transactions significantly dropped, which dictates that only large flex operators were active during the pandemic. Later, between 2021 and 2022, size and number of transactions started increasing which hints at active participation from small flex operators. However, size and number of transactions declined during H1 2023 as flex operators entered a wait-and-watch mode amid demand slowdown.

## What will be the most preferred reason to select flex space over traditional office space?



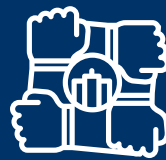
Save commute time

34%



Better work-life balance

23%



Make corporate connections

29%



Boost productivity

14%

Source: Online and offline survey, Compiled by Vestian Research

Less commute time is the biggest advantage of leasing office space in flexible spaces, closely followed by improved corporate connections. Saving on employees' commute time directly turns into a better work-life balance leading to a boost in productivity.

## Flex operators' confident of market growth

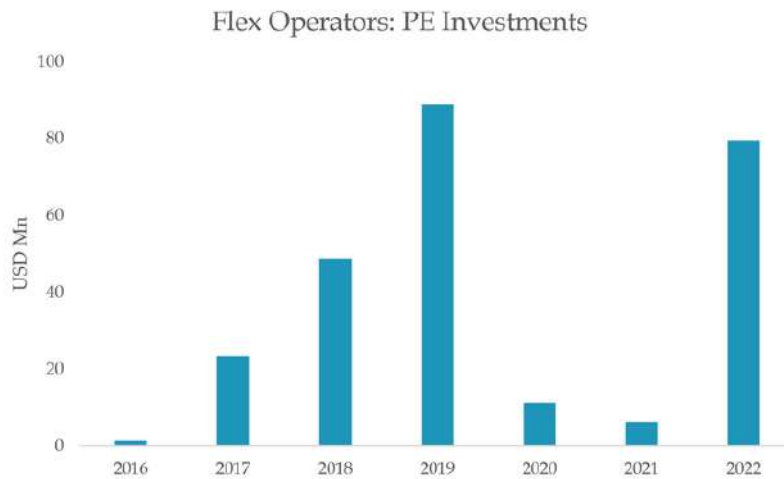


Source: Vestian Research

In 2015, average lease tenure by flex operators was more than 6 years with high rentals. It increased to more than 8 years in 2018 as the flex market matured over time. Longer tenure and larger transactions enabled flex operators to get the deal at lower rentals between 2018 and 2020. However, the COVID-19 pandemic shook the confidence of flex operators temporarily which resulted in a reduction in average tenure to 77 months in 2021. Average rent has also inflated along with it. However, the market is showing signs of strengthened confidence and growth. As of H1 2023, average lease tenure is around 6.5 years with an average rent of below INR 80/sq ft./month.



## Private equity investments are on the rise



Source: Vestian Research

Flex operators received around USD 260 Mn of private equity investments since 2016. It peaked at nearly USD 90 Mn in 2019 but dropped significantly in 2020 amid uncertainty around the future of flexible spaces. Later, it recovered and reached USD 80 Mn in 2022.

- Nearly 96% of the private equity investments since 2016 were concentrated in Bengaluru and NCR
- Co-investments dominated the total PE investments since 2016 with a 68% share



Flexible spaces sector is at a nascent stage in India compared to other countries such as USA and European countries. It has grown gradually in India and reached 53.4 Mn sq ft flexible office stock. Furthermore, the stock is anticipated to reach 81 Mn sq ft by 2025, growing at a CAGR of 23%, as COVID-19 catalyzed the market growth."

# Tapping new sectors

Presently, IT-ITeS commands the lion's share, around 60%-70%, of the total absorption of flexible spaces. However, there are numerous other sectors that can contribute to the growth of the flexible space market. However, these sectors have several apprehensions when opting for flexible office spaces. Managing employees' productivity and efficiency remotely, dilution of company culture, health & safety, technological challenges, etc. are some of the limitations of flexible spaces which need to be addressed to tap other sectors such as BFSI, telecom, media, pharma, manufacturing, etc.

## What is the biggest challenge while opting for flex office spaces?



**Health & safety**

15%



**Data privacy & security**

29%



**Dilution of company culture**

29%



**Team management**

27%

Source: Online and offline survey, Compiled by Vestian Research

Health and safety are no longer a concern for majority of the respondents while working from flex office spaces. Data privacy, security, team management, and dilution of company culture turn out to be the biggest limitations of flexible office spaces which need to be addressed quickly to lure new sectors.





# Way Forward

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The growth of flexible spaces has been phenomenal in the past couple of years, especially after the pandemic. Presently, flex spaces have around 53.4 Mn sq ft of stock spread across more than 1,000 centers. As per Vestian Research, the stock is estimated to cross 81 Mn sq ft in the next 2 years with increased adoption of flexible spaces by large enterprises.

As several companies are urging their employees to head back to the office under a hybrid model, it is likely to increase the demand for flexible spaces. As per our research, office location plays a pivotal role in bringing back employees to the office. Flexible operators are capable of providing flexi desks, meeting rooms, and other amenities near the homes of employees. This may lead to less commute time and improved work-life balance for employees and cost saving for employers. Looking at the benefits, several tenants have already mandated a certain portion of their office space requirement to be fulfilled by flexible spaces.

In future, the line between flexible spaces and different asset classes of real estate is expected to blur. While commercial office developers are likely to build custom spaces specifically to be leased out to flexible operators, residential developers may also try to accommodate shared office area with few meeting rooms and office desks in their residential complexes. Other commercial asset classes such as hotels, malls, and shopping complexes have already started addressing the need for flexible spaces. This trend may promote work from near home.

Tier-2 cities in India have witnessed significant growth as flexible operators expand their footprint. This may amplify further with more operators establishing their bases in small cities to cater to the growing demand. While these cities reduce the cost of operations significantly along with access to a new local talent pool, employees get the benefit of a lower cost of living.

Overall, flexible spaces are likely to grow steadily in the coming years. Uncertainty is looming over office markets around the world due to the slowdown in world economy, and India is no exception. During this uncertain period, flexible spaces can provide flexibility in lease terms, less initial set-up cost, and flexibility of increasing and decreasing the required office desks/space. This may drive the next wave of growth for flexible spaces in India.

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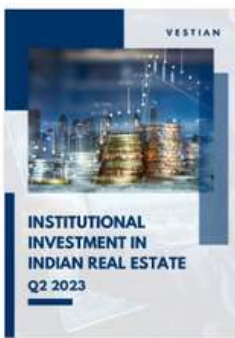
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We align and measure our key deliverables based on clients' strategic business goals. Our commitment to achieve excellence and consistency in our service delivery models has helped us attain high standards of quality and raise the bar for the industry. Our experienced team has the required expertise and exposure in different sectors. Combining global best practices and local knowledge, the team provides an integrated solution for all real estate requirements. Moreover, the belief in our corporate philosophy - Delivering Measurable Results - helps us to provide solutions, in keeping with global delivery standards.

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