

Emerging trends and opportunities in office sector 2023



Foreword

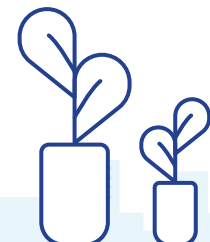
Growth in traditional and flex spaces regained momentum in 2022 as occupiers became more optimistic about expanding their footprint. In the post-pandemic workspace domain, the genre of office space underwent a sea change as occupiers began focussing on de-densification of spaces, and additionally, began prioritizing employees' experience, wellness and productivity, whilst also, given ongoing recessionary concerns, seeking ways and means to institute cost control measures.

Further, the increased deployment of hybrid working models is concurrently impacting office market dynamics; though these work models are now ubiquitous across business dispensations, seamless synchronization between work output, work environment and employees is yet a work-in-progress; even so, in the near future, the hybrid working model will evolve in ways that enable and empower occupiers to tweak and optimise them for maximum added value.

Importantly, global recessionary pressures and the post-pandemic shift to hybrid work models notwithstanding, a polarization in office demand is expected in the prominent micro markets of the six Indian metros, as businesses shift attention from traditional office spaces to spaces built by reputed developers, with an ecosystem that fosters social engagement and enhances employee wellbeing and experience.

Raj Menda

Joint Chairman, FICCI Real Estate Committee and
Corporate Chairman, RMZ Corp



Foreword

From the ordinary to extra ordinary, from a cubicle desk checkerboard pattern to a feel-good activity-based setup, workplaces have metamorphosed. While the 'work' now follows a people-first approach, workplaces are undergoing a space transformation with an interplay of physical infrastructure, technology, wellness, making them multifaceted.

The most appropriate model for working has been in debate ever since the inception of pandemic. Even today, occupiers have been going back and forth on remote working and return to work. But there is no one size that fits all. In the future of work, hybrid working model is setting the right frequency for occupiers and employees. As work evolves, the way of working will evolve too depending on the nature and future of work. The offices of tomorrow will swivel on such structural shifts in the world of work.

On the workspace front, occupiers are not only looking at measurable growth but an extension of work culture that reflects their identity and boosts productivity of employees. In the given economic situation, flex spaces act as the one-stop solution for occupiers. Will flex spaces compete with traditional spaces? Maybe not, but it will make traditional space owners contemplate about how to meet occupiers' needs better.

These new dimensions in the world of work will be driving key office fundamentals amidst the emerging economic & business environment. Time will tell whether the office market will surpass the recessionary concerns and set its ground in the latter part of 2023 or will the economic headwinds have a prolonged impact. However, what we know is that the market is sturdy enough to dodge back as it did during the pandemic times.

Sankey Prasad

Chairman and Managing Director | Colliers



Office market turns the corner in 2022

The year 2022 was not just about pent up demand from the preceding two years, but it was also a year of recovery and growth. The growth in traditional and flex spaces has been robust in 2022 as occupiers were more optimistic about leasing space and expanding their footprint. In this report, Colliers takes a look at how offices have changed over the last five years the key factors that are likely to influence the office sector, at a time when the definition of “office” has taken a new meaning since the pandemic.



Office market snapshot 2022



Total leasing during the year was noted at

50.3 msf

the *highest* in any year



Vacancy levels continued to moderate, registering

16.6% *a 1.9pp*

decline YoY amidst robust demand

The year 2022 saw

42.9 msf

of supply, *23% higher YoY* as developers focused on project completions



Average rentals as of Q4 2022 remained

rangebound

as landlords ensured the momentum of *demand remained intact* amidst economic headwinds

Source: Colliers

Does the office market look resilient for 2023 or will it experience a slowdown?

While 2022 was a record year for office leasing led by recovery and pent-up demand, the year 2023 started with some caution led by the recessionary concerns. About **35-38 msf of office leasing** is expected in the top six cities of the country, in an optimistic scenario during 2023, provided the recession impact is low.

Despite the looming global recessionary pressures, a polarization in office **demand is expected** in the prominent micro markets of the **top six cities in India** owing to the occupiers' inclination towards their established ecosystem.

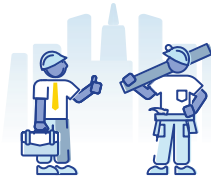


During 2023, we expect a relative slowdown in overall traction specially from the tech sector due to the ongoing layoffs. However, leasing by **flex, engineering** and **BFSI** companies are expected to **remain resilient**.

Source: Colliers

*Note: Top six cities include Bengaluru, Chennai, Delhi NCR, Hyderabad, Mumbai, Pune

Key trends for office market for 2023



Developers' rising focus on **retrofitting** and **upgradation** to give long-term benefits to occupiers and employees

More **green properties** to enter the office market as stakeholders focus on cutting down the carbon footprint



Hybrid model to evolve and become more efficient for work, work environment and employees

Focal points for the "now and beyond" of the office spaces

Shift towards hybrid working to optimize space utilization

While hybrid mode of working was expected to be largely pandemic-centric, it continues to persist. Occupiers are ensuring better space management, elevating efficiency of workspaces

Occupiers preference for flex spaces to remain strong

Occupiers continue to see benefits in flex spaces led by agility in lease structures, and low upfront capital. Flex spaces will align with occupiers' goals, weaving in technology and wellness that befit modern work preferences



The shift in the world of work

The notion for work spaces has evolved significantly over decades. However, the Covid-19 pandemic proved to be the biggest nudge, which has led to a change in the landscape of workplaces. From stringent rules about offices to workplaces being a place of only work to workplaces being seen as a place for 'collaboration and ideation', the definition of 'work' is seeing a structural shift. Occupiers are transitioning towards hybrid work to give employees the flexibility of working as per their choice on some days. Going ahead, the hybrid model of working is likely to evolve to become more outcome-based. Occupiers will focus towards toning down the disparity between the virtual form of teamworking and physical working in a hybrid working model.



The shift in the world of work

Pre Pandemic <2020



Complete work from office and lack of flexibility wrt location



Occupiers started focussing on activity-based offices



Relatively lower focus on health and wellness



Flex spaces were limited



Exploring experiential workspaces to enhance productivity

During Pandemic 2020-2021



Introduction of WFH (Work from Home)/ remote working policies



Occupancy levels in flex spaces dropped; subdued demand led to consolidation



Relocating to cheaper office locations; emphasis on lease negotiations during renewals



Need for more private spaces than shared spaces



Increased preference for having satellite offices to expand footprint



Work infrastructure



Re-configuring workplace layout to ensure safety



Adding physical barriers, screens to ensure safety



Focus on Improved Air Quality (IAQ), providing touchless features



Enhancing technology to enable remote working

Post Pandemic >2021



Increase in rate of return to work with hybrid working being most preferred



Cognizance on the role of office being critical to business operations



Flex spaces gaining traction led by flexible lease terms and attractive amenities



More focus on sustainable and green offices



Work infrastructure



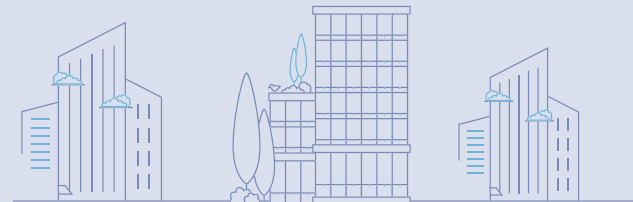
Upgrading technology to make hybrid working more efficient



Increased collaboration and ideation spaces in offices



Earmarking health and wellness facets for employees



Hybrid working: Optimizing office space utilization

Over the years, occupiers' are focusing on building employees' experience, wellness and productivity. At the same time, with the ongoing recessionary concerns, occupiers are looking at measures to aid cost control. On the workspace front, post pandemic, the nature of office space take up is undergoing a change as occupiers are focusing on de-densification of spaces. Led by various employee-centric and operational benefits, occupiers are embracing hybrid working model, which is now here to stay. As per an occupier survey conducted by Colliers on Hybrid working in September 2022, 63% of the occupiers are embracing hybrid working model. The increased adoption of hybrid working model is parallely having an impact on office market dynamics.

Some of the broader themes emerging for hybrid working model for the office market are mentioned below.

Hybrid work pivoting the office market dynamics

Hybrid work leading to office space rationalization



In a hybrid working model as employees work from office for only a few days a week, various workspace elements like desks can be used on a rotational basis, which largely leads to optimization of office space.

This would ensure accommodation of larger workforce in the same workspace

Occupiers may Split office spaces across business hubs



As employees now prefer to work from locations closer to their homes, occupiers can split their larger workspaces into satellite offices. Such offices can be located either in peripheral areas of tier I cities or major tier II cities. A rising demand for satellite office will eventually lead to rise in demand for flex spaces

Upgrading to better quality workspace



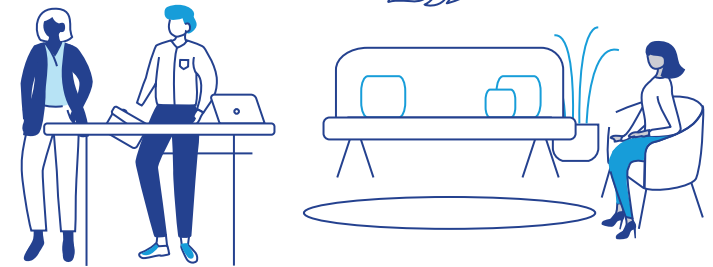
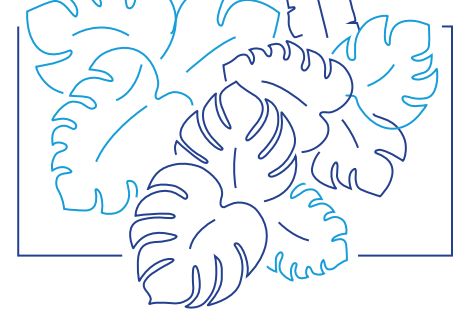
Hybrid working model dictates lesser strength of employees amidst growing companies. Occupiers in large office spaces of Grade B buildings can look at taking up relatively smaller spaces in quality Grade A office buildings at prominent locations. From a workplace design perspective, the future workspaces will be designed in a way that it focuses on having larger share of collab and recreational spaces along with cutting edge amenities.

Hybrid working model holds significant potential and is yet to become more prominent in the office environment in the near future. The demand is already seeing a shift and the market is set on the new growth trajectory. While the market is resetting, the complete impact of hybrid working on office market dynamics will be seen over the course of next few years.



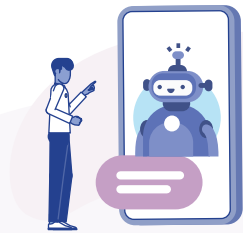
Making hybrid work more efficacious

Though the hybrid work model is now being embraced across organizations, it still lacks synchronization between work output, work environment and employee. In the future of work, hybrid working model will mature in a way that occupiers will relook their hybrid plans and effectively organize them to optimise productivity. The evolved matrix of hybrid work below, highlights the focal points that occupiers can look at for improving efficiency in operations and hence increase employee productivity.



How managers can elevate employee's hybrid working experience?

- Building clear expectations and timeline; providing strategic clarity
- Tailored feedback for effective collaboration
- Focus on performance and outcome-based management than controlling employees
- More inclusive environment through team activities and events



How technology can facilitate hybrid working?

- Skill development and training programs for effective blend of human and AI powered tools
- Using work monitoring tools to measure employees' performance
- Using AI to perform automated tasks to engage employees in more strategic work
- Adopting relevant software for hybrid work- Seamless blend of in-person and virtual meetings with minimum impact on productivity
- Using appropriate technology to manage information security



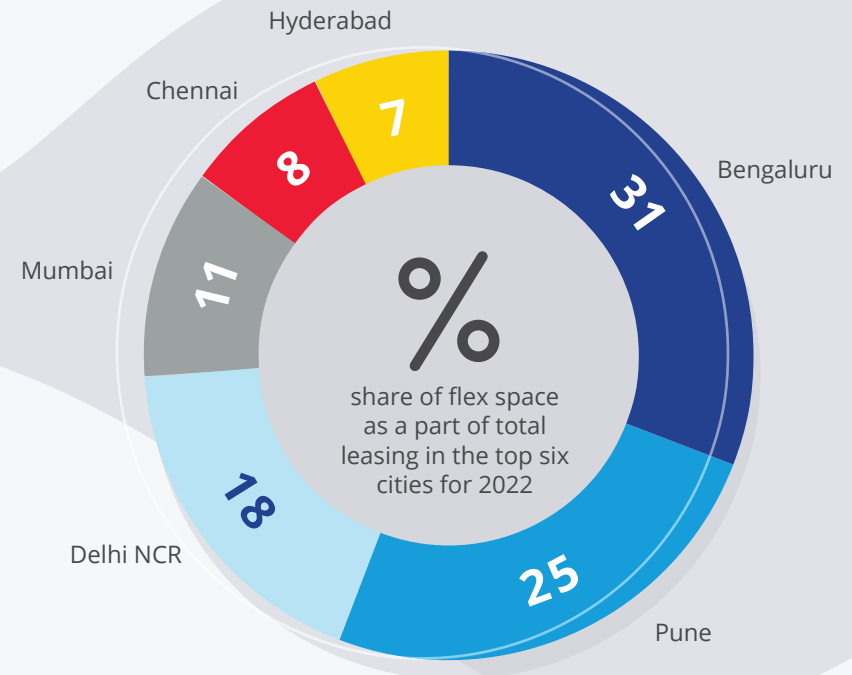
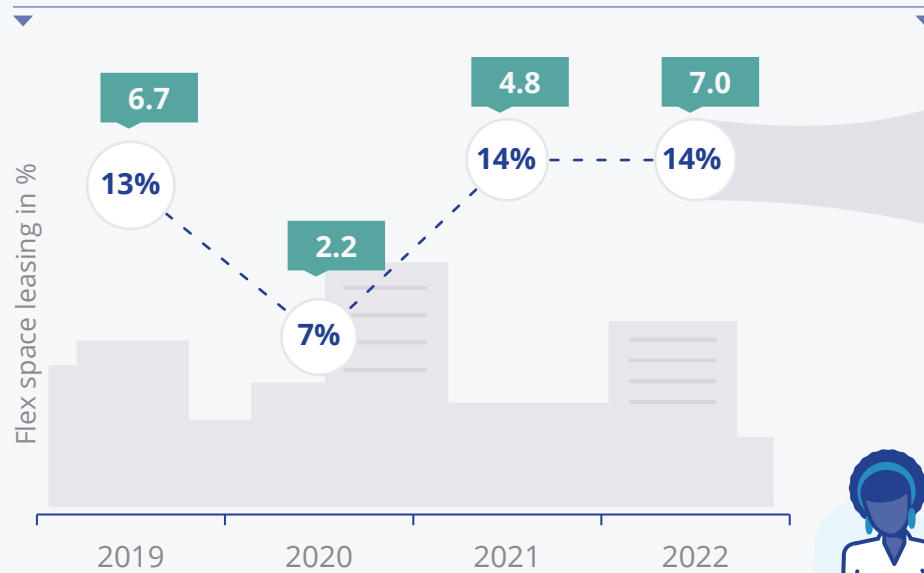
Encouraging a healthy lifestyle

- Managing remote working days within the team by considering each member's work-life balance preferences
- Design employee wellness programs to enhance positive mindset and infuse optimism
- Providing a variety of work environments while the employee is working from office, with freedom of choice
- Use of ergonomic design fixtures such as noise reducing surfaces for speech privacy, temperature control for amiable work environment, provision for natural light

Flex spaces remain buoyant

As offices become more resilient to the unprecedented changes be it pandemic or recession, occupiers are opting for flex spaces to optimize their needs. They are seeking ways to seamlessly weave hybrid mode of working through flex spaces – which are a one-stop solution for occupiers.

Flex spaces outshine across the top 6 cities



Source: Colliers

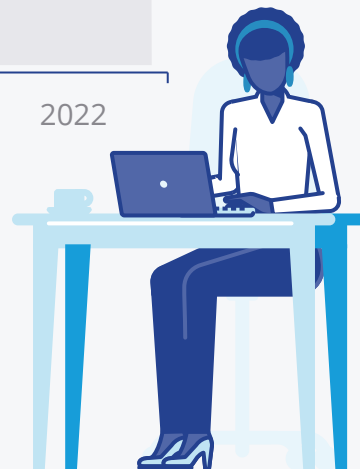
Flex space leasing in msf



41.3 msf

Pan India Flex stock as of 2022

Source: Colliers



During 2022, flex operators in India, leased


7 msf

of Grade A office space rising more than 3 folds compared to pandemic levels.



Flex spaces improve collaboration and improve employees' efficacy through tailor-made solutions for the occupiers

Opportunities



Short term lease tenures reducing the need for any long-term capital commitments

Seamless permit to access various recreational, cafeteria and collab spaces enhances networking and social interaction

Attractive amenities helps retaining and nurturing talents

Occupiers can consider flex space leasing as an interim solution before they expand or look for permanent conventional office spaces (Swing space)

Challenges

Limited privacy in terms of visual and acoustic privacy; Sharing of common spaces

Maintaining cyber security

Scalability issues in resources, customers and employees

Companies wish to have a strong office identity

Tech players eyeing space uptake in flex spaces

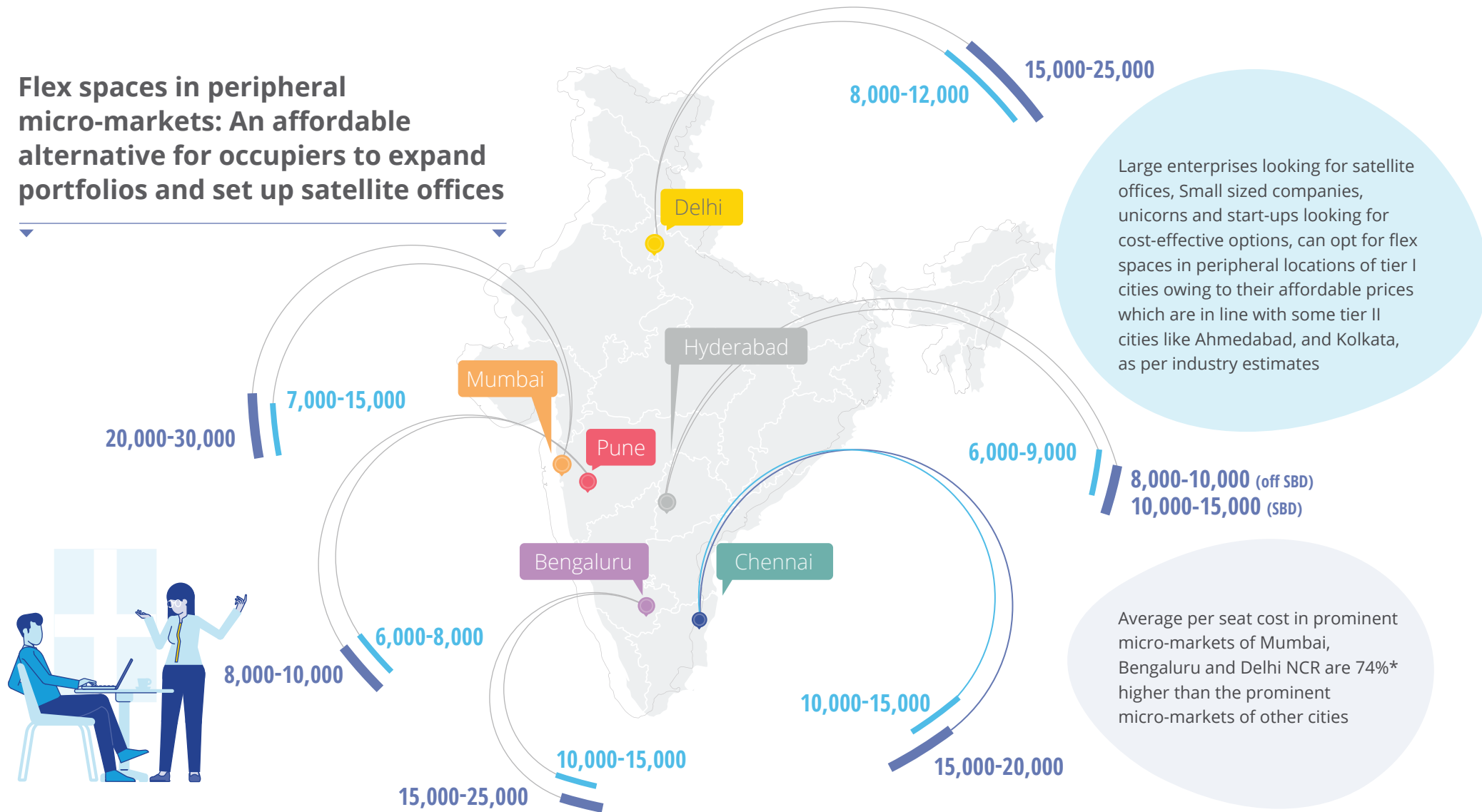
Tech sector has always remained the top occupier in office spaces. However, the year 2022 saw a dip of 6 pp in leasing share by tech companies in contrast to 2021. A subdued scenario is likely to continue in the sector, amidst the looming global recession and layoffs.

However, tech companies are likely to take up space amidst the ongoing flux in the sector. While the momentum of demand can be relatively slower in the first half of the year, a rebound is likely in the second half of 2023.

At the same time, top players are now seeing a surge in demand from BFSI and healthcare firms too.



Flex spaces in peripheral micro-markets: An affordable alternative for occupiers to expand portfolios and set up satellite offices



Source: Colliers

Market Definition-	Bengaluru	Chennai	Delhi NCR	Hyderabad	Pune	Mumbai
Prominent market	CBD, SBD	CBD, Guindy	DLF Cyber city, Golf course, MG Road and CP	SBD, Off SBD	Baner, Balewadi Kharadi Viman Nagar KP, Kalyani Nagar, Hinjewadi, Wakad	BKC, Central Mumbai, Powai
Peripheral market	ORR, Whitefield	OMR Pre-toll, Pallavaram Thoraipakkam Road (PTR), Mount-Poonamallee Road (MPR)	Udyog Vihar, Golf Course Extension, sector road, Saket, Jasola etc	PBD	Fursungi	Andheri, Eastern suburbs, Thane, Navi Mumbai

How flex space operators are adding newer services to attract tenants

Flex players can look at some of the offerings mentioned below to upgrade their centres and offer world-class facilities. Since occupiers are now focusing on improving employee experience, this could lead to tenant retention and elevated occupancy levels

Parameters	Features
Tech specific to improve operational efficiency	RFID*, enhanced security for internet, UPS(Uninterrupted power supply) backup
Design related	Office suite**, theme based offices, creative fit-outs
To improve health and wellness	Updated standards for air quality, wellness rooms, gym/yoga memberships
To improve collaboration	Workshops, functional kitchen, game zone
Sustainability features	Opting for green certified buildings

Source: Colliers

Note: *Radio-Frequency Identification
 **office suits are fully furnished office spaces conference rooms and private amenities as shared add-on amenities



Strategies adopted by Global players to attract tenants



Child care facilities like on-site nursery



Locations closer to public transport and physically safer for women



LGBTQ friendly offices



Bicycle storage room- to promote sustainable travel



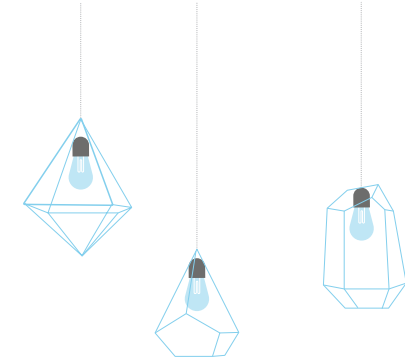
Private VLAN/Wi-Fi



On-site Colocation (rack space)



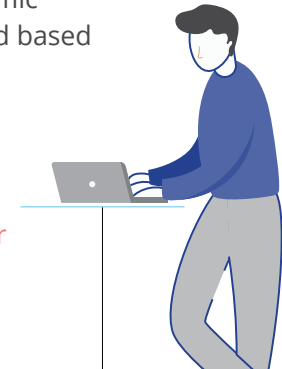
Outlook for office market 2023: Stakeholders to remain watchful



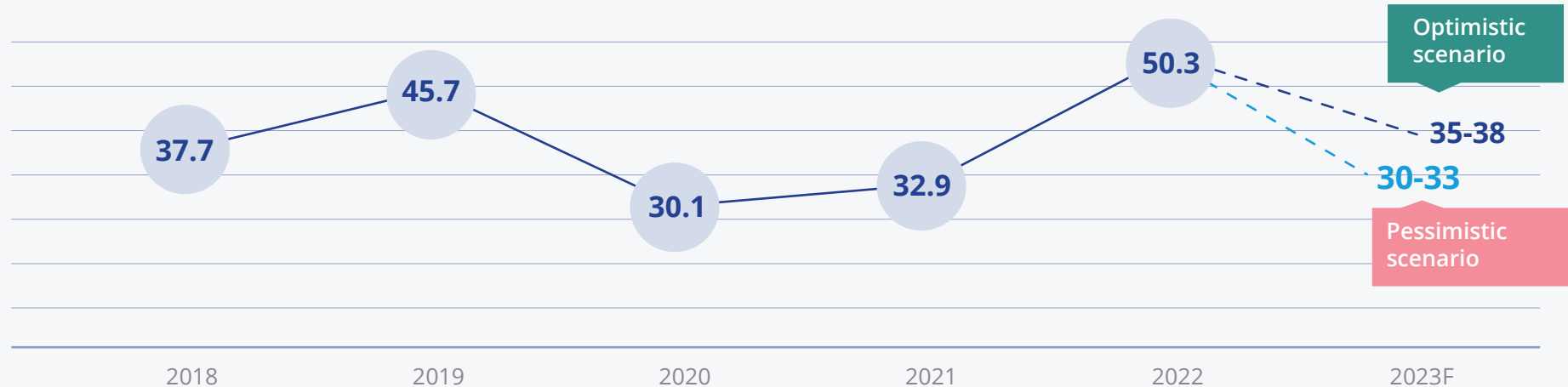
The growth of the office market will largely be led by the CRE (Commercial Real Estate) appetite of occupiers, hinging upon the dynamic global economic situation. Amidst the prevailing recessionary concerns and uncertainty, we have analysed the office market demand based on two scenarios,

1 Optimistic scenario
wherein the impact on office space would be limited and would ease out in the second half of 2023

2 Pessimistic scenario
wherein the impact on office space would be relatively prolonged and higher



Office market demand forecast - 2023



Source: Colliers

Note: Demand values are mentioned in mn sq ft
Forecast is based on prevailing market conditions and would largely depend on how the economic conditions fare throughout the year

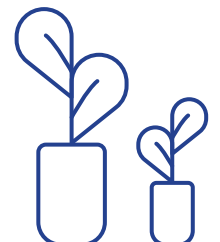
In an optimistic scenario, we expect the economic headwinds to ease out, not causing a significant dent to overall occupiers' confidence. In such a situation, Colliers expects total office leasing of about 35-38 mn sq ft in the top six cities, wherein the impact of externalities would be low. As American and European companies look at cost control, they may explore expanding or relocating their technology operations in India. Further, occupiers are likely to remain optimistic to take up office spaces especially flex spaces led by their flexible lease terms and to provide the right working environment to their employees.



In a pessimistic scenario, we expect the impact of economic headwinds would be prolonged, leading to slackening in leasing activity and postponement of leasing decisions by occupiers, as they hold on expansionary strategies. In such a case, we expect office leasing to hover around 30-33 mn sq ft. We however expect leasing activity to pick up from mid-year, led by Global capability centers, BFSI companies and start-ups with sound business models.



While there is significant new supply in pipeline across the top markets, the actual influx of office supply is likely to closely follow the demand trajectory and hinge on the market conditions and pre-commitments to neutralise the market fundamentals. Further, limited demand might slightly push up vacancy levels. The rentals are expected to remain rangebound to keep the momentum of demand intact, in a volatile situation. Overall, since the office market has shown quick recovery post Covid-19, on similar lines the market might bounce back with relative ease despite the global headwinds.





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