Flexing The Future

Assessing the Readiness of Flex Spaces for Evolving Commercial Real Estate Demands

2024

Knight Frank's ultimate guide highlights the expanding role of flexible workspaces, driven by ESG and technology integration, shaping future office demand and preferences.

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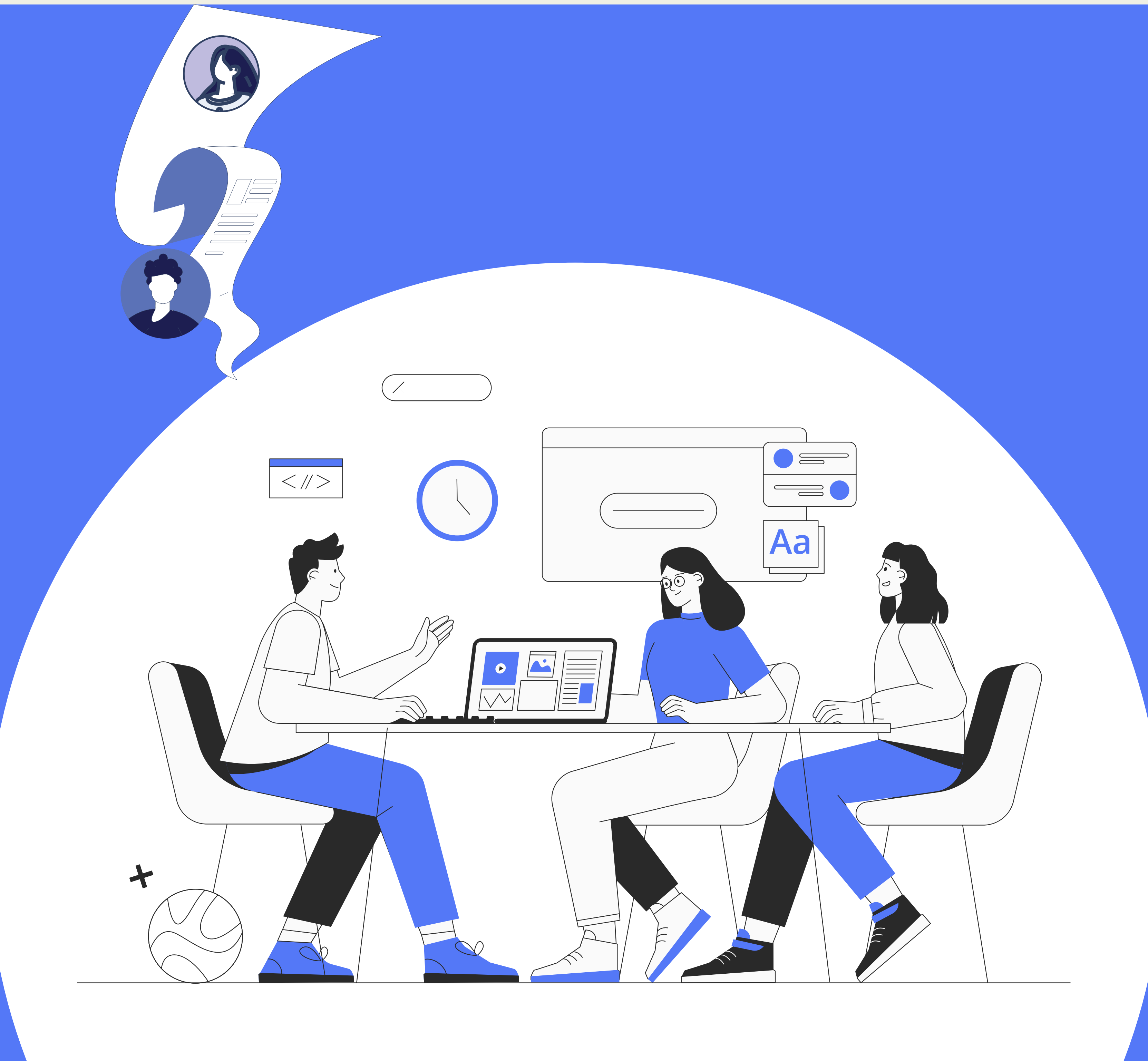

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Foreword

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As we navigate the dynamic landscape of India's commercial real estate market, it is evident that the industry has shown remarkable resilience and growth, even in the wake of global economic challenges. The impressive GDP growth projections for FY 2025 and beyond, underscore India's position as the fastest-growing major economy. This economic vitality is a catalyst for the office space market, driving occupier activity and creating a buoyant environment for growth.

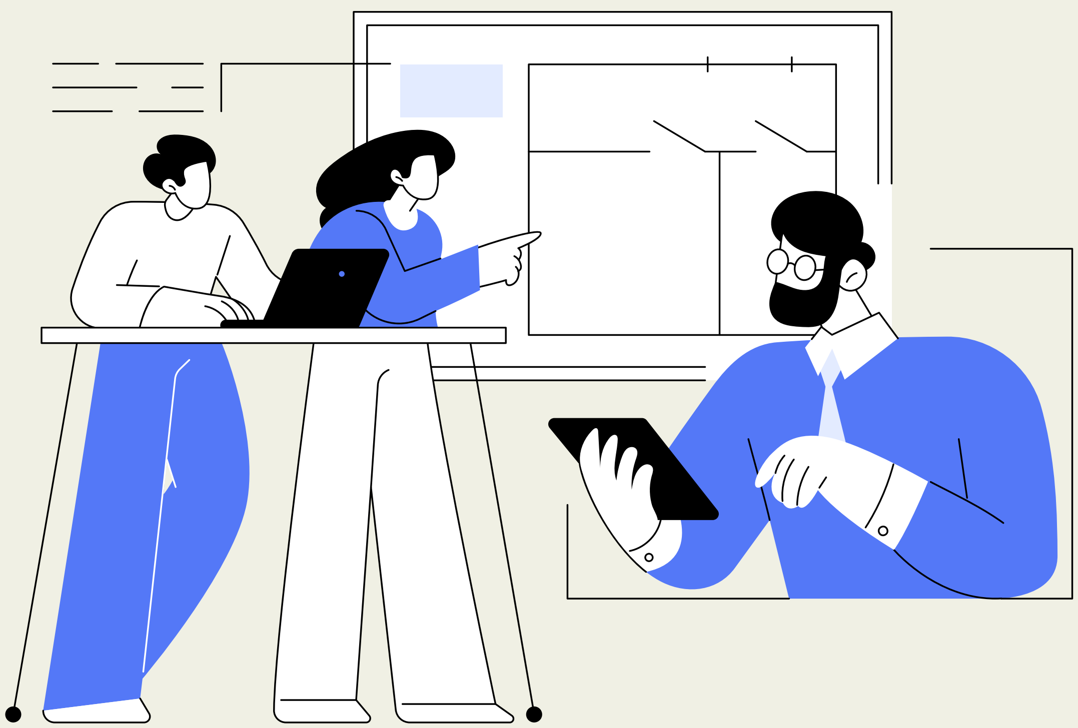
The commercial real estate industry stands at a pivotal juncture, with unique opportunities to realign and reinvent workspaces. Occupiers are now looking beyond basic amenities to focus on employee well-being, and flexible office space operators are well-positioned to meet these evolving demands. The industry's ability to provide customized, flexible office solutions are increasingly favoured by not just freelancers and startups, but also by medium and large enterprises.

The growth and resilience of India's office space market is evident from the sustained increase in transactions and the rising share of flex spaces. Flex space operators are expanding in Tier 1 cities and venturing into Tier 2 cities, reflecting the diverse and growing market needs of the occupier landscape.

The industry's evolution from coworking spaces to managed offices reflects its ability to adapt and thrive in changing business environments. Furthermore, the integration of ESG principles and emerging technologies into operations, underscores its commitment to sustainability and operational efficiency. These initiatives not only enhance user experience but also align with the strategic priorities of modern businesses.

Flex space operators are not only ready for the future but are actively shaping it. Investments in technology, ESG initiatives, and flexible offerings position them to meet the demands of today's discerning occupiers. With India's robust economic growth and the industry's innovative approach, the future looks promising.

I hope you find this report both informative and insightful.



1 CHAPTER

Introduction

India's office space market, an integral part of the commercial real estate industry, has shown remarkable resilience and growth post-pandemic, outperforming in a global context where many economies are still grappling with the aftermath. The Reserve Bank of India (RBI), through its exceptional handling of the monetary policy, has successfully navigated the economy through an inflationary environment that still affects much of the developed world. The impressive GDP growth figures for FY 2024 and the positive revision for FY 2025 underscore India's status as the fastest-growing major economy. This economic vigor has been a catalyst for the office market, with occupier activity being buoyed by the optimistic economic climate.

The landscape of office market occupiers in India is diverse, encompassing:

India Facing Businesses	Third-Party IT Services	Global Capability Centers (GCC)	Flexible Operators /Space
This segment includes transactions by lessees/buyers who have businesses focused on the Indian market.	Occupiers in this category provide IT and IT-enabled services to offshore clients, servicing multiple clients without necessarily being owned by any of them.	These transactions involve lessees/buyers that provide various services to a single offshore company, which has complete ownership of the entity transacting the space.	This category includes companies specializing in offering comprehensive office space solutions with flexibility in tenure, services provided, and scalability according to business needs.

In the post-pandemic era, where a return to the office has made a comeback, the commercial real estate industry is presented with a unique opportunity to realign and reinvent workspaces to cater to the needs of discerning occupiers. Occupiers are increasingly looking beyond basic amenities to ensure employee well-being. Flexible operators already have an edge in this area, having championed the *hotelization* of workspaces.

Flexible office spaces have long served as a practical option for freelancers, remote workers, and startups. Recently, they are increasingly favored by larger enterprises, corporations, and multinational companies (MNCs). This shift is attributed to the inherent flexibility of such spaces and the reduced initial capital costs associated with establishing traditional office setups. These advantages make flexible office spaces an attractive alternative for businesses looking to adapt and scale efficiently. Managed Offices or enterprise offices are a subset of 'flex space' offerings in the Indian office space market. They are differentiated from plain coworking transactions in that these flex spaces are taken up to service a single sub-tenant or an extremely large anchor tenant.

With evolving real estate strategies, occupiers need to be cognizant of approaches that will suit them best. Emerging trend concepts such as the Hub and Spoke model and the Core Plus Flex policy are reimagining the way occupiers view workspaces.

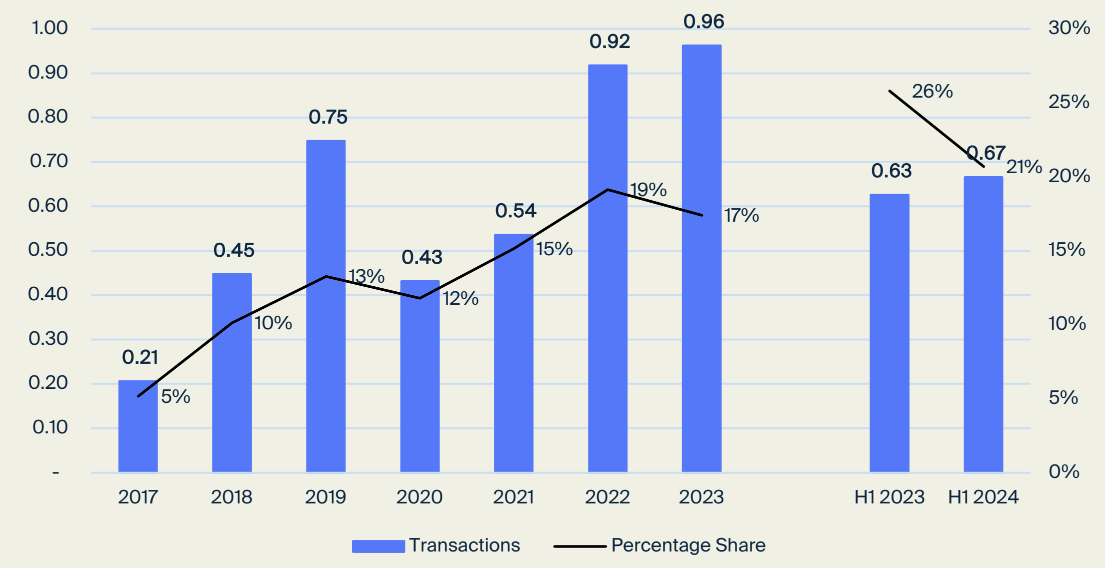
The core plus flex strategy is a modern approach to workspace management that combines the stability of a traditional office with the flexibility of coworking spaces. It is being adopted by a growing number of companies as a way to adapt to the changing nature of work. This innovative strategy allows companies to integrate traditional leased spaces with flexible office agreements within their real estate portfolios. It enables businesses to maintain a stable 'core' of long-term space while having the 'flex' to adapt to changing needs and scales. This model is particularly advantageous for companies looking to test new workspace designs or enter new markets without committing to long-term leases.

In the hub and spoke model, the company has a primary 'hub' office that serves as a place for meetings, team collaboration, and events. This hub is usually located in a major city or city center. The 'spokes' are smaller, satellite offices or coworking spaces spread across various locations closer to where the employees live. The key difference is that the hub and spoke model emphasizes decentralization and employee convenience, while the core plus flex policy focuses on flexibility and cost management by combining permanent and temporary workspace solutions.

Flexible spaces are increasingly deemed as ideal for commercial real estate considerations because they provide the much-needed fluidity in an industry traditionally seen as static and inflexible. There has been an increase in space take up by flex operators as absorption increased sharply by 29% CAGR during CY 2017-23, and in the current year it has increased by 6% YoY during H1 2024. The share of flex spaces as a percentage of the office space market too has been increasing in a calibrated manner over the years.

Flex space operators have significantly increased their footprint, with space absorption growing at an impressive 29% compound annual growth rate (CAGR) between CY 2017 and 2023.

Flex Space Transactions* (mn sq. m)



Source: Knight Frank Research
Note: 1 square metre (sq m) = 10.764 square feet (sq ft)
*Top 8 cities: Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, MMR, NCR and Pune

Bengaluru accounts for the bulk of overall flex stock at ~ 34% followed by NCR, Pune and Hyderabad accounting for ~16%, 15% and 15% respectively.

Zone-wise distribution of Flex spaces

In Tier I cities, commercial properties are often divided into various 'districts'. The average rental or capital value of properties in these districts is based on this categorization and business houses and individuals use them to decide the area to set up offices.
A Central Business District (CBD) is typically the most sought-after office location within a city, prized for its central location and well-established physical and social infrastructure. Suburban Business Districts (SBDs), located in the suburban parts of a city, serve as office hubs. Multiple SBDs often exist within a city, each characterized by its specific location and features. Similarly, Peripheral Business Districts (PBDs) are situated in the peripheral areas of a city, with multiple PBDs existing within a city, having distinct characteristics and locations. Each type of business district offers unique advantages, catering to different business needs and preferences.
The evolving landscape of India's urban centers is marked by a noticeable shift in the preference for office locations. Operators in Tier I cities are increasingly favoring SBDs over the traditional CBDs which are reaching a saturation point due to limited space and high costs. SBDs offer contemporary office buildings that cater to the needs of today's businesses and occupiers. Moreover, the proliferation of flex spaces within CBDs is not as widespread, due to the higher costs and congestion issues associated with these prime locations.
Flex spaces, characterized by their versatility and adaptability, are becoming an integral part of the modern workspace ecosystem. However, their growth in CBDs is hampered by the very challenges that SBDs are designed to overcome. PBDs are also playing a significant role in the urban spread, particularly in cities like Kolkata and Pune. These districts are emerging as significant contributors, attracting businesses with their lower rental costs and growing infrastructure.
Flexible spaces, when strategically distributed, can significantly enhance occupiers' real estate potential. The flexibility of these spaces can often be judged by their spread and dispersion across key business districts, ensuring easy commute and accessibility for occupiers.

Zone-wise distribution of Flex spaces

	Ahmedabad	Bengaluru	Chennai	Hyderabad	Kolkata	MMR	NCR	Pune	India
CBD	4%	16%	15%	1%	16%	16%	29%	8%	14%
SBD	94%	52%	75%	86%	3%	68%	64%	65%	65%
PBD	2%	32%	10%	13%	81%	16%	8%	27%	21%

Source: Knight Frank Research

This dispersion pattern highlights the growing flexibility and adaptability of flex space operators in choosing office locations that balance cost, accessibility, and infrastructure.

Market Level Zone-wise Rentals (INR/sq m)

	Ahmedabad	Bengaluru	Chennai	Hyderabad	Kolkata	MMR	NCR- Delhi	NCR Gurugram	NCR- Noida	Pune
CBD	388-452	1,346-2,099	700-1,023	431-861	700-1,023	1,722-3,767	2,347-3,767	915-1,507	861-1,184	840-1,464
SBD	420-538	969-1,830	807-1,098	646-969	538-915	969-5,113	915-2,153	1,184-1,938	560-700	678-1,324
PBD	323-431	538-1,023	431-646	484-700	269-646	581-829	NA	269-377	323-377	495-1,130

Source: Knight Frank Research

Market Level Zone-wise Rentals (INR/sq ft)

	Ahmedabad	Bengaluru	Chennai	Hyderabad	Kolkata	MMR	NCR- Delhi	NCR Gurugram	NCR- Noida	Pune
CBD	36-42	125-195	65-95	40-80	65-95	160-350	218-350	85-140	80-110	78-136
SBD	39-50	90-170	75-102	60-90	50-85	90-475	85-200	110-180	52-65	63-123
PBD	30-40	50-95	40-60	45-65	25-60	54-77	NA	25-35	30-35	46-105

Source: Knight Frank Research

Strategically distributed flexible spaces can significantly enhance occupiers' real estate potential by ensuring accessibility and convenience through their presence across key business districts. This wide dispersion optimizes commute times and improves operational flexibility.

Business District Classification

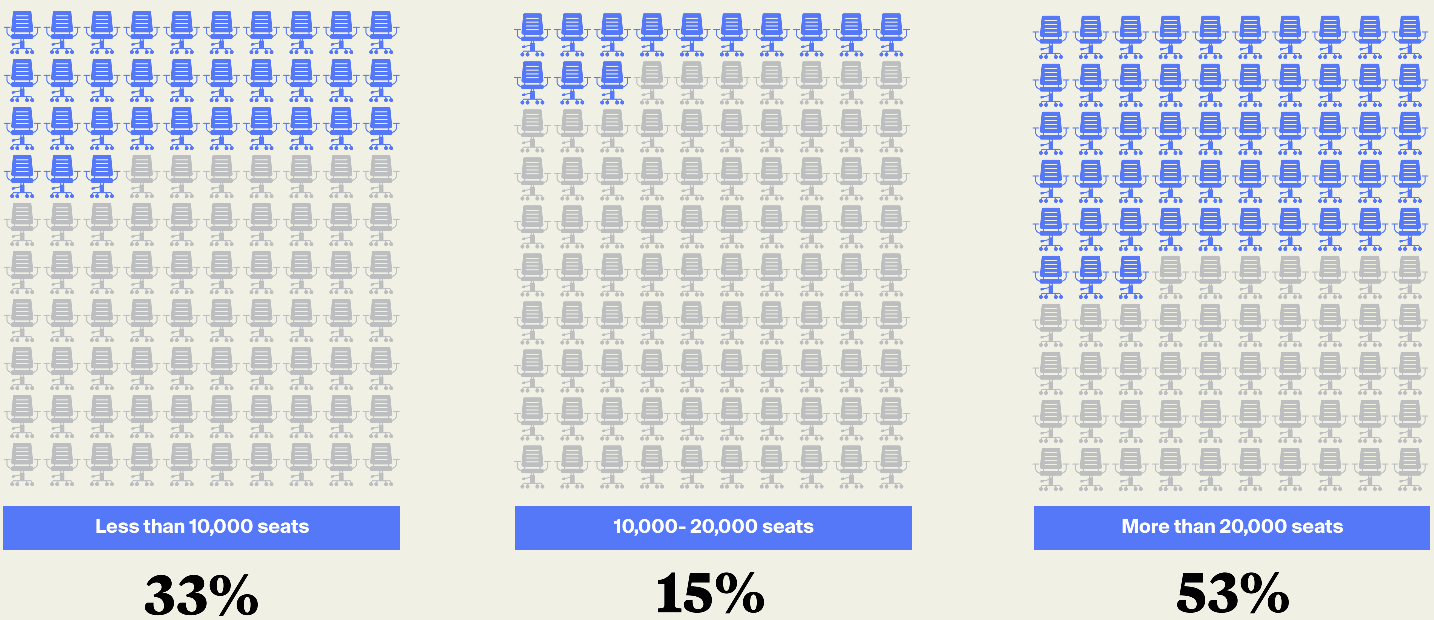
	Business district	Micro markets
Ahmedabad	CBD	Ashram Road, Ellisbridge, Paldi
	SBD	Bodakdev, Keshav Baug, Prahladnagar, Satellite, SG Highway, Thaltej
	PBD	Gandhinagar, GIFT City
Bengaluru	CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
	SBD	Indiranagar, Koramangala, Airport Road, Old Madras Road, Hebbal ORR, Marathahalli ORR, Sarjapur Road ORR
	PBD	Whitefield, Electronic City, Bannerghatta Road, Thanisandra, Yelahanka, Devanahalli, Vijaynagar, Tumkur Road, Mysore Road
Chennai	CBD	Anna Salai, RK Salai, Nungambakkam, Greams Road, Egmore, T Nagar
	SBD	Mount Poonamallee Road, Porur, Guindy, Nandambakkam, Perungudi, Taramani
	PBD	OMR beyond Perungudi Toll Plaza, GST Road, Ambattur
Hyderabad	CBD	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat Nagar, Raj Bhavan Road, Punjagutta
	SBD	HITEC City, Kondapur, Manikonda, Kukatpally, Raidurg
	PBD	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally, Uppal, Pocharam
Kolkata	CBD	Park Street, Camac Street, Theatre Road, AJC Bose Road, Elgin Road, Rabindra Sadan, Esplanade, Lenin Sarani, S N Banerjee Road, Central Avenue, Dalhousie Square, Mangoe Lane, Brabourne Road, Chandni Chowk, Rawdon Street, Loudon Street, Lee Road, Lord Sinha Road, Hastings, Hare Street, Kiran Shankar Ray Road, Upper Wood Street, Hungerford Street, Circus Avenue, Syed Amir Ali Avenue, Chowringhee
	SBD	Topsia, JBS Haldane Avenue, EM Bypass-Park Circus Connector, EM Bypass-Rashbehari Connector, Anandapur Main Road, Rajdanga, South Ballygunge, Ashutosh Mukherjee Road, Gariahat, Hazra, Chetla, Jessore Road, Nagerbazar
MMR	CBD	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli, Parel, Lower Parel, Dadar, Prabhadevi
	SBD	BKC, Bandra (E), Kalina and Kalanagar, Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur, Andheri, Jogeshwari, Goregoan, Malad
	PBD	Thane, Airoli, Vashi, Ghansoli, Rabale, Belapur
NCR	CBD	Delhi: Connaught Place, Barakhamba Road, Kasturba Gandhi Marg and Minto Road; Gurugram: DLF CyberCity, Sohna Road, Udyog Vihar and Gwal Pahari Noida: Sectors 16, 18
	SBD	Delhi: Nehru Place, Saket, Jasola, Bhikaji Cama Place, Mohan Cooperative, Okhla and Aerocity; Gurugram: M G Road, NH-8, Golf Course Road and Golf Course Extension Road; Noida: Sectors 62, 63 and the Noida-Greater Noida Expressway
	PBD	Gurugram: Manesar Noida: Sector Alpha, Beta, Gamma and Tech Zone
Pune	CBD	Bund Garden Road, S B Road, Camp, Deccan, University Road, Shankar Sheth Road
	SBD	Kalyani Nagar, Yerwada, Nagar Road, Hadapsar, Wakdewadi, Aundh, Baner, Kothrud, Balewadi, Pimpri, Chinchwad, Khadki, Moshi and Bhosari
	PBD	Kharadi, Phursungi, Hinjewadi, Bavdhan, Wakad

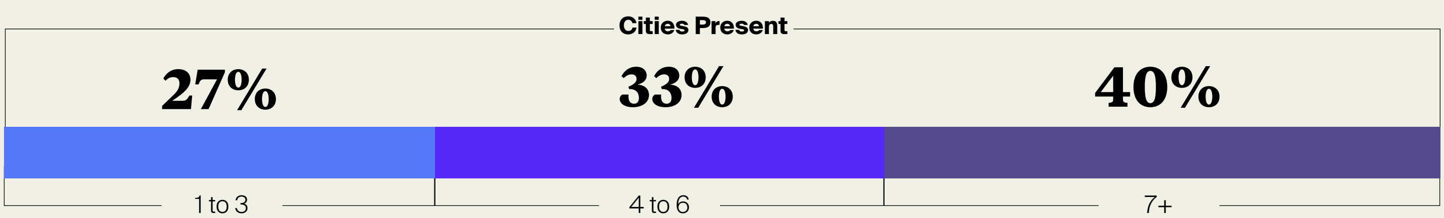
Source: Knight Frank Research

Occupancy

Knight Frank Research has conducted a survey among flex space operators to gather firsthand information on flex workspace metrics and operations. The survey sample includes flex operators with nationwide presence as well as those operating in specific cities, ensuring a diverse range of responses and findings. The overall sample respondents collectively manage around 2,76,000 seats. ***Findings from this survey are sourced by the Knight Frank Research Flex Operator Survey.***

Surveyed Operator Profile





Source: Knight Frank Research Flex Operator Survey

In the wake of the COVID-19 pandemic, businesses across the globe, including India, have had to re-evaluate their workspace requirements. This re-evaluation has led to an increased demand for flexible, cost-effective, and scalable workspace solutions. Both property owners and occupiers are recalibrating their real estate strategies to embrace flexible workspaces. The office space occupancy data for major Indian cities from pre-pandemic 2019 to post-pandemic 2023 reveals a significant trend that supports this observation.

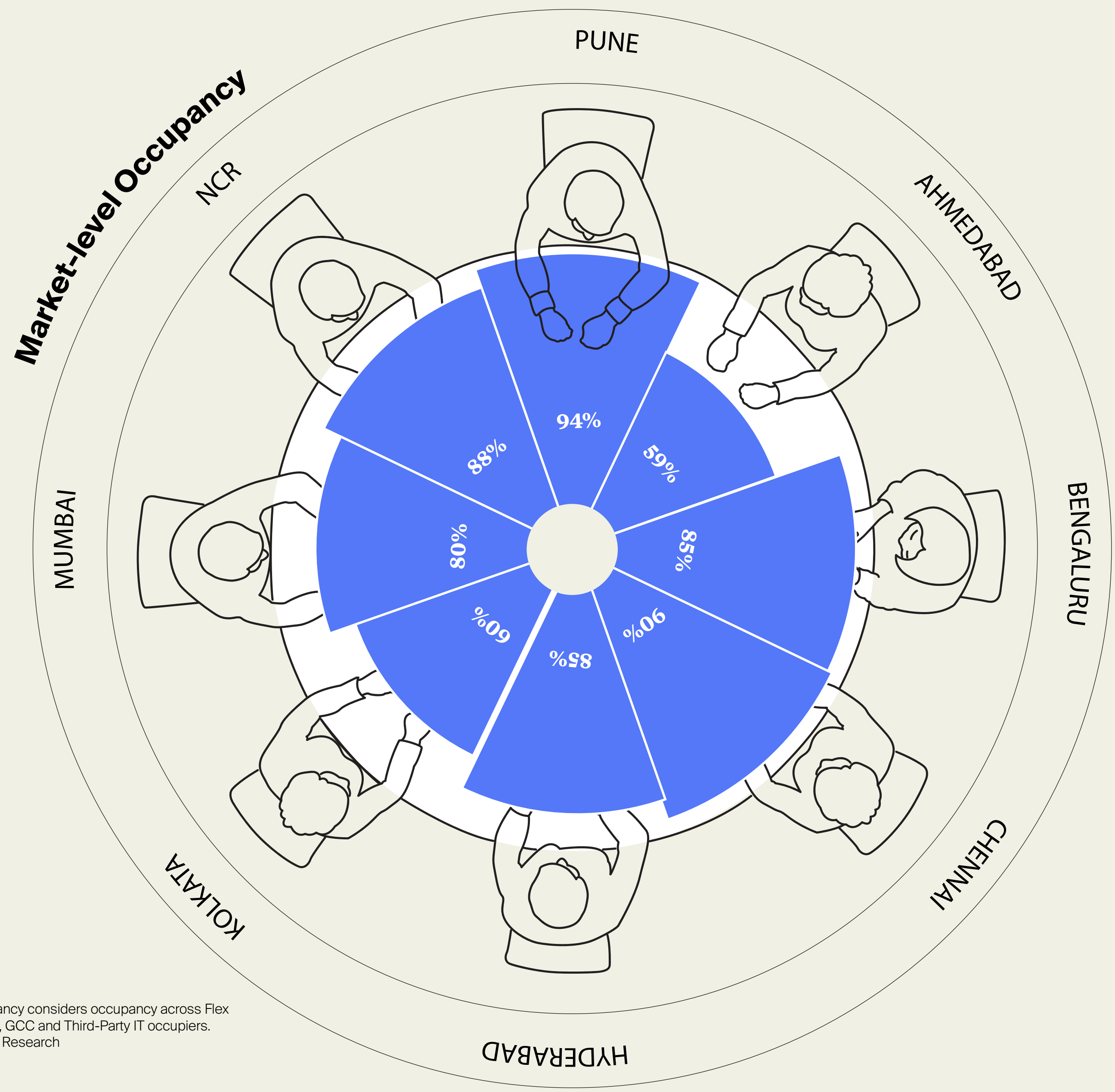
Ahmedabad maintained high occupancy rates, increasing from 90% in 2019 to 95% in 2023. Bengaluru as a tech hub, witnessed a rise from 73% to 86%. Chennai's occupancy improved from 67% to 81%, indicating a growing acceptance of flex spaces. Hyderabad experienced steady growth, with occupancy rising from 73% to 84%. Kolkata witnessed a notable increase from 78% to 94%. Mumbai saw a significant rise from 74% to 94%. The NCR showed growth from 71% to 92%, indicating an increasing preference for flexible spaces in the capital region, and lastly, Pune showed stable demand with occupancy rates at 80% in 2019 and 2022, with a slight increase to 83% in 2023.

Occupancy Level in Flex Spaces

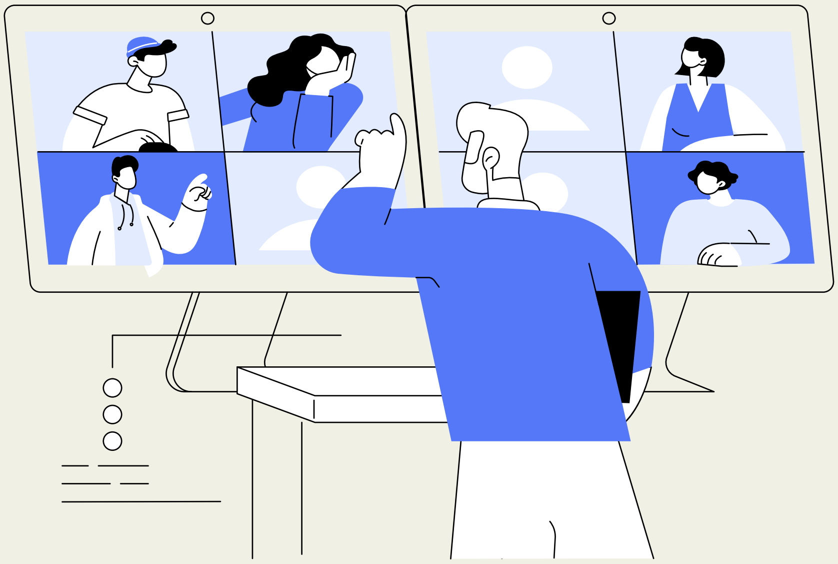
	2019 - Flex Occupancy	2022 - Flex Occupancy	2023 - Flex Occupancy
Ahmedabad	90%	93%	95%
Bengaluru	73%	83%	86%
Chennai	67%	73%	81%
Hyderabad	73%	82%	84%
Kolkata	78%	87%	94%
Mumbai	74%	89%	94%
NCR	71%	87%	92%
Pune	80%	80%	83%

Source: Knight Frank Research Flex Operator Survey

Overall, the trend indicates a robust expansion and adoption of flexible workspaces in India's major cities, with a positive trajectory in occupancy rates over the years under observation. This reflects the evolving nature of work post-pandemic, with a shift towards more dynamic and adaptable working environments. To add perspective, the diagram below throws light on the market level* occupancy during 2023.



Note: Market Occupancy considers occupancy across Flex Spaces, India Facing, GCC and Third-Party IT occupiers.
Source: Knight Frank Research



Tenant Mix

The tenant/occupier mix of flex players in major Indian cities varies significantly, reflecting each city's unique economic landscape and industrial strengths.

The Information Technology sector is the most dominant industry in flex/coworking spaces, driven by the need for rapid scalability, flexible lease terms, and the collaborative nature of coworking environments that fosters innovation and networking. This dominance is particularly evident in tech-focused hubs like Pune, Hyderabad and Bengaluru.

Other Services sector, which includes professional services such as consulting, tourism, media agencies, and creative industries, also have a significant presence in flex spaces. In cities like Chennai and NCR, sectors such as marketing services, logistics, healthcare, and education services are particularly prominent.

The Banking, Financial Services, and Insurance (BFSI) sector, though not as dominant as Information Technology or Other Services sector, shows a strong preference for flex spaces in financial hubs like Ahmedabad (GIFT City) and the financial capital of the Mumbai Metropolitan Region (MMR). Manufacturing firms have a notable presence in flex spaces in cities with a strong industrial base. This trend is especially visible in NCR, Kolkata and Pune where manufacturing companies need workspaces for their administrative and managerial operations.

City-wise Tenant Mix

	Ahmedabad	Bengaluru	Chennai	Hyderabad	Kolkata	MMR	NCR	Pune	India
BFSI	25%	18%	9%	9%	4%	25%	12%	2%	13%
Information Technology	27%	41%	32%	44%	48%	27%	17%	46%	39%
Manufacturing	18%	9%	11%	6%	16%	6%	21%	15%	10%
Other Services Sector	31%	31%	49%	41%	32%	42%	50%	36%	38%

Source: Knight Frank Research
Note: Based on Gross Transactions

Understanding these regional differences is crucial for businesses and investors seeking to navigate the Indian office and flex space market effectively.

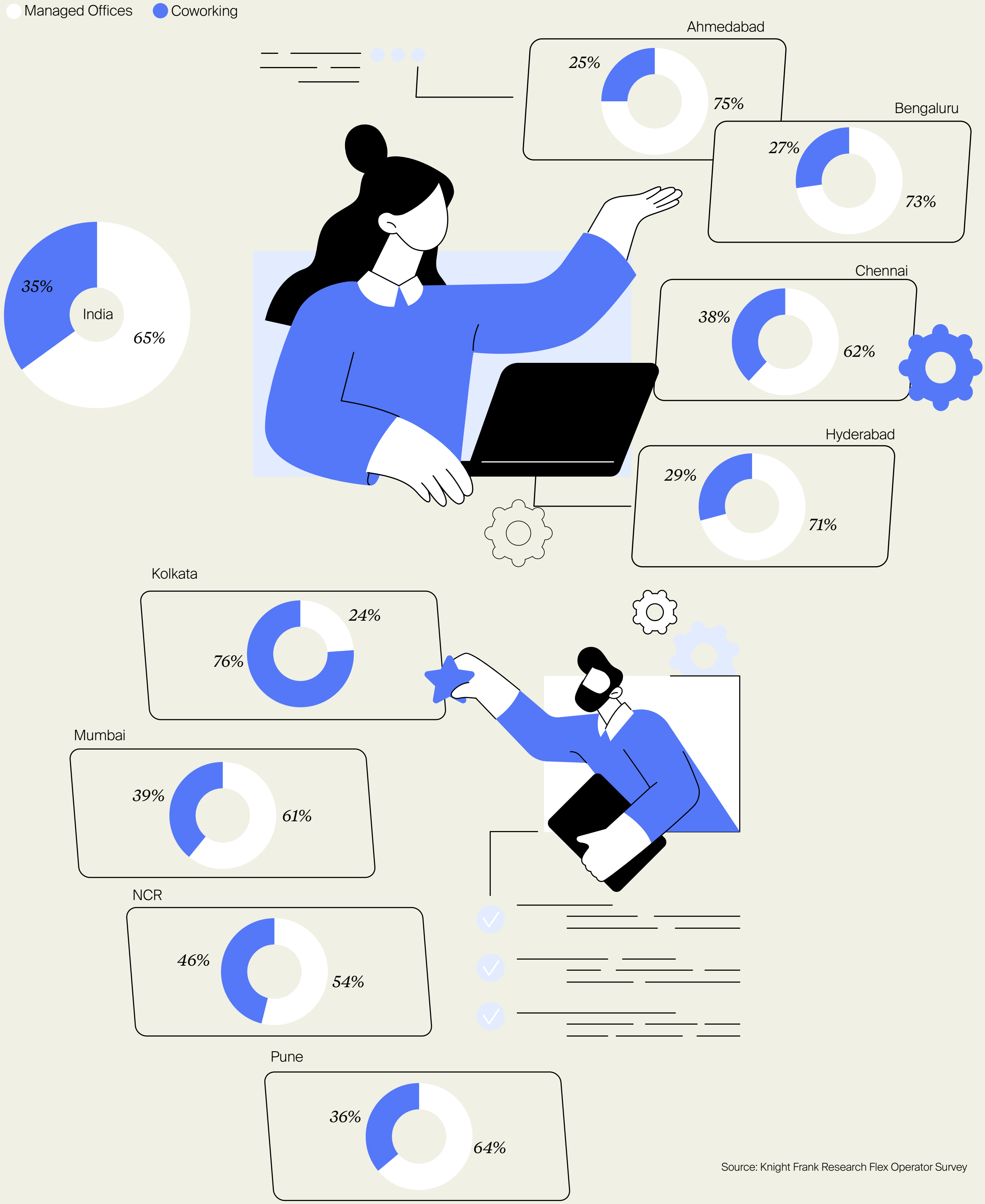
Flexible Space Operators Portfolio Mix

The proportion of managed offices versus coworking seats varies significantly across different Tier 1 cities, influenced by the local business landscape, real estate strategies, and economic factors. Understanding these differences can help flex operators and real estate developers tailor their offerings to meet the specific demands of each city, ensuring a balanced and responsive office space market.

As per our survey findings, the Ahmedabad market has a high preference for managed offices, indicating a demand for dedicated and customized office solutions. Bengaluru, Hyderabad, and Pune also show a significantly higher proportion of managed offices and occupy 59% of the managed space stock. As major tech hubs with a high concentration of large information technology companies and startups, these cities seem to favour managed offices catering to large anchor tenants. In contrast, Kolkata's higher proportion of coworking seats, is likely due to a higher number of small enterprises and freelancers who prefer the flexibility and community environment provided by coworking spaces. Meanwhile, Chennai, Mumbai and NCR, being major economic hubs, show significant demand for both managed offices and coworking spaces with NCR having a more balanced distribution between managed offices and coworking seats.

At a national level, managed offices constitute 65% of the flexible workspace market, while coworking spaces account for 35%. Managed offices have quickly gained popularity among medium to large enterprises due to their ability to offer tailored office solutions, including bespoke office design, dedicated IT infrastructure, and exclusive amenities. Flex operators have expanded their offerings to include managed offices, addressing the diverse needs of their clients. The overall preference for managed offices indicates a maturing market where companies value dedicated spaces that offer customization and control.

Proportion of Managed Offices versus Coworking seats



Source: Knight Frank Research Flex Operator Survey

Cost Structure Analysis

Occupancy cost or the cost of setting up space typically includes the following:

- Office Rentals: These vary as per the location/business district.
- Capital Expenditure (CAPEX): These typically include physical assets such as furniture, fixtures and equipment.
- Operating Expenditure (OPEX): These are the day-to-day expenses a company incurs to keep its business running such as utilities cost and property management fees.
- Common Area Maintenance (CAM) Fees: These are paid for the general maintenance of the building such as management and administrative fees, contract services (janitorial, security) etc.

With respect to flex operators there are certain unique advantages when it comes to the setup.

- Office Rent Savings: Flex operators negotiate lower rental rates for bulk leases and longer commitments.
- CAPEX Savings: Economies of scale in procurement ensure lower CAPEX costs, which are passed on to the clients as savings.
- OPEX Savings: Shared amenities and services reduce operational expenses.
- Flexibility in area/seats requirement allows companies to adapt to changing business needs, enabling easy scaling up or down based on workforce fluctuations.

However, flex operators also **levy a margin for the services and economies of scale they offer**. The choice between traditional and flexible leases depends on various factors such as the size of space required, lease duration, facilities and amenities provided, and the capacity to incur upfront capital expenditure.

Cost profiling: Traditional Standard Lease versus Managed Offices (INR/sq m/month)

Cost of setting up		Ahmedabad	Bengaluru	Chennai	Hyderabad	Kolkata	Mumbai	NCR	Pune
Grade A Building	Standard Lease	1,407	2,874	2,336	2,357	2,121	3,272	3,057	2,408
	Luxury Flex Operators	1,407	2,863	2,271	2,337	2,067	3,165	2,882	2,317
Grade B Building	Standard Lease	1,256	2,174	1,938	1,783	1,625	2,863	2,040	1,970
	Standard Flex Operator	1,256	2,142	1,884	1,754	1,593	2,702	1,927	1,695
Grade C Building	Standard Lease	1,092	1,722	1,572	1,367	1,302	2,465	1,687	1,787
	Budget Flex Operator	1,071	1,722	1,485	1,309	1,281	2,271	1,598	1,404

Source: Knight Frank Research

Cost profiling: Traditional Standard Lease versus Managed Offices (INR/sq ft/month)

Cost of setting up		Ahmedabad	Bengaluru	Chennai	Hyderabad	Kolkata	Mumbai	NCR	Pune
Grade A Building	Standard Lease	131	267	217	219	197	304	284	224
	Luxury Flex Operators	131	266	211	217	192	294	268	215
Grade B Building	Standard Lease	117	202	180	166	151	266	189	183
	Standard Flex Operator	117	199	175	163	148	251	179	157
Grade C Building	Standard Lease	101	160	146	127	121	229	157	166
	Budget Flex Operator	99	160	138	122	119	211	148	130

Source: Knight Frank Research

Interest garnered from Private Equity Players

The trend in Private Equity (PE) investments in the Indian flexible office space sector, as depicted in the graphs, highlights significant fluctuations in investment amounts and the number of deals over the years. Between 2017 and 2018, investments in the Indian flexible office space sector grew steadily from USD 25 mn to USD 49 mn. The subsequent year 2019, witnessed a significant rise to USD 113 mn, signaling heightened interest and optimism in the sector, with notable investments from players like CLSA Capital and Peak XV Partners. However, 2020 and 2021 saw a sharp decline in investments, dropping to USD 11 mn and USD 6 mn respectively. This is attributed to the uncertainty and operational challenges brought about by the COVID-19 pandemic.

The year 2022 marked a resurgence in investment reaching USD 595 mn, driven by major deals from investors like Hillhouse Capital and Actis, reflecting renewed confidence and the recognition of flexible spaces as a vital component of corporate real estate strategies. Investments however, decreased sharply to USD 13 mn. In 2024, 1 deal has been recorded, wherein a player has secured USD 8mn.

Trends of Private Equity Investment in Indian Flexible Spaces

	Amount (USD Mn)	No of Deals
2017	25	6
2018	49	5
2019	113	8
2020	11	2
2021	6	2
2022	595	9
2023	13	4
2024*	8	1

Source: Knight Frank Research, Venture Intelligence.
2024* Jan-Sep

Future Readiness

Occupiers are increasingly influenced by strategic considerations such as environmental, social, and governance (ESG) factors, as well as the integration of technology and artificial intelligence (AI) in business operations. These elements are becoming integral to commercial real estate considerations, transitioning from 'good to have' to 'must have'. The question now arises: How future-ready are flex space operators to adapt to these evolving demands?

2 CHAPTER

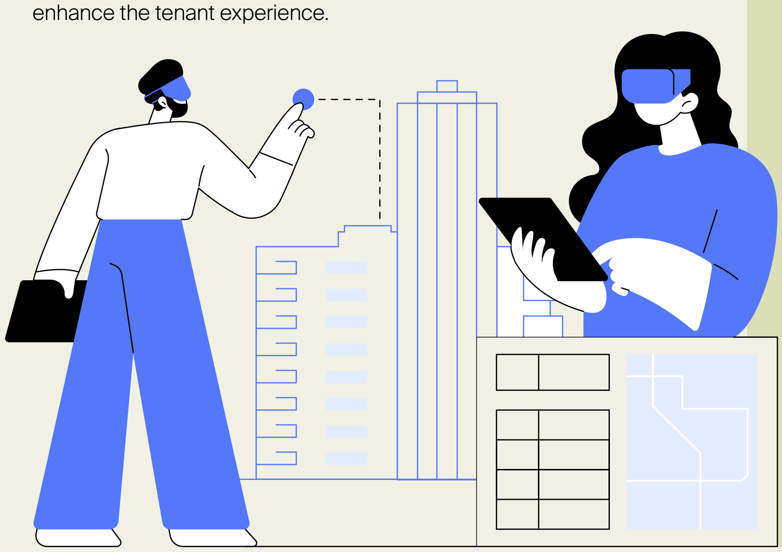
Technological Adoption and Integration

CRE and Tech

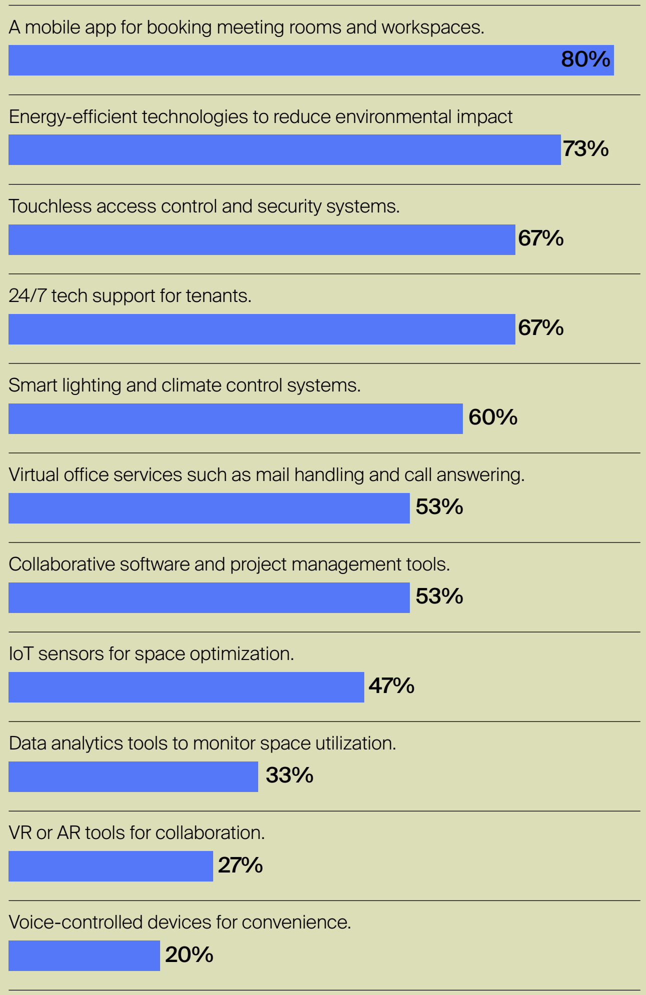
Commercial real estate is undergoing a profound technological transformation, revolutionizing how companies interact with their physical spaces. This transformation, driven by a rapid technological revolution, has not only streamlined operations but has also fundamentally reshaped professionals' approach to the industry. From optimizing processes to enabling more informed decision-making, technology in CRE is playing a pivotal role in driving the industry's evolution. As technological advancements continue to progress at a rapid pace, it is bound to become more accessible and cost-effective, further catalyzing innovation across industries.

Flex space operators, known for their adeptness in embracing and integrating technology, understand the critical significance of technological advancements. They lead the way in innovating workspaces, focusing on areas like data privacy and space optimization. Flex spaces prioritize the tenant experience by offering a range of technological amenities, aimed at providing convenience, efficiency, and a contemporary work environment. In our survey, operators were asked about the technological amenities they offer to ensure a seamless experience for occupiers. Here are the key amenities offered:

- Mobile App Integration: 80% operators have developed apps allowing tenants to book meeting rooms and workspaces on-the-go, offering flexibility and time-saving benefits.
- Energy-Efficient Technology: 73% of the operators provide technologies like LED lighting and smart thermostats, reducing environmental impact and operational costs.
- 24/7 Tech Support: 67% offer round-the-clock assistance for addressing any technical issues, ensuring uninterrupted productivity.
- Touchless Access & Security: 67% of the operators offer systems enabling seamless entry and exit without physical contact, enhancing safety and ease of use.
- Smart Climate Control: 60% offer systems that automatically adjust lighting and temperature for comfort and energy savings.
- Collaboration Tools: 53% provide software and project management tools facilitating teamwork, even in a remote setting.
- Virtual Office Services: Likewise, 53% offer services such as mail handling and call answering, supporting remote work and virtual presence.
- Internet of Things (IoT) for Optimization: Almost half the operators (47%) utilize sensors to gather data, optimizing space usage and enhancing the work environment.
- Data Analytics: 33% utilize tools analyzing space utilization to make informed decisions about workspace management.
- Virtual Reality/Augmented Reality and Voice Control: 27% and 20% of the operators also offer/incorporate these emerging technologies to enhance the tenant experience.



Tech-related Amenities offered by Flex Operators



Source: Knight Frank Research Flex Operator Survey

These amenities collectively contribute to a seamless and modern workspace environment, aligning with the evolving needs and expectations of occupiers in flexible workspaces.

Data privacy

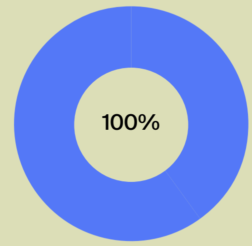
Data privacy is paramount, especially in shared and flexible spaces. Operators recognize it as a fundamental aspect of their operations, aiming to build trust with occupiers. In the Knight Frank Research Flex Operator Survey, flex operators responded on the methods they adopt to ensure compliance with relevant regulations, particularly in areas such as data privacy and safety.

The survey findings indicate that the majority of surveyed entities prioritize data privacy through several key strategies:

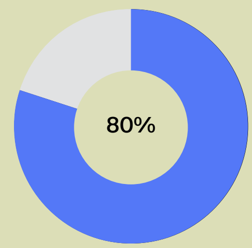
- Regular Audits: Every surveyed operator emphasized regular external audits and assessment of data privacy measures. This proactive approach ensures that data privacy protocols remain current and effective.
- Data Encryption: A significant 80% of the operators implement robust user authentication methods and data encryption to fortify sensitive information against unauthorized access and breach, demonstrating a strong commitment to data security.
- Privacy Training: 60% operators offer tailored data privacy training to members and employees. This initiative fosters a culture of data privacy awareness and adherence throughout the organization.
- Incident Response: 47% of the surveyed operators have developed comprehensive incident response plans to swiftly address data breaches in compliance with regulations. This preparedness ensures that all breaches are managed effectively and in accordance with legal requirements.
- Data Protection Officers: Further, 40% of entities employ dedicated data protection officers to oversee and enforce data privacy policies. These officers play a crucial role in ensuring organizational compliance with regulations and maintaining adherence to data privacy standards.

The percentages provided reflect the adoption of each strategy among the surveyed entities. It is important to note that these strategies are not mutually exclusive and complement each other for a more robust approach to data protection.

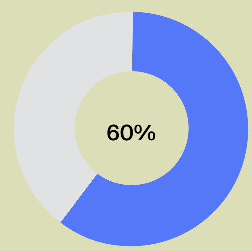
Methods adopted to ensure Data Privacy by Flex Operators



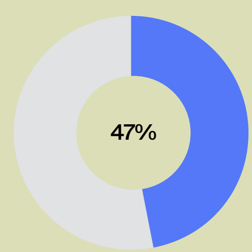
Regularly conduct external audits and assessments of data privacy measures.



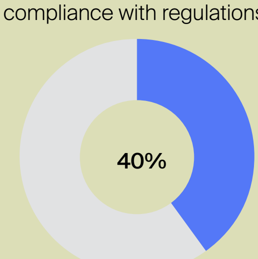
Implement strong user authentication methods and data encryption to safeguard sensitive information.



Offer customized data privacy training to all members and employees to ensure awareness and adherence.



Establish a robust incident response plan to address data breaches promptly and in compliance with regulations.



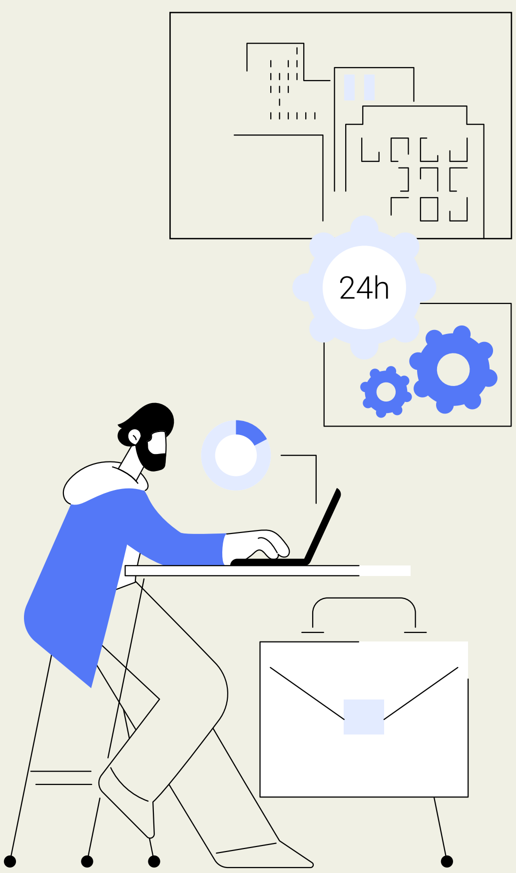
Employ dedicated data protection officers to oversee and enforce data privacy policies.

Source: Knight Frank Research Flex Operator Survey

Space utilization

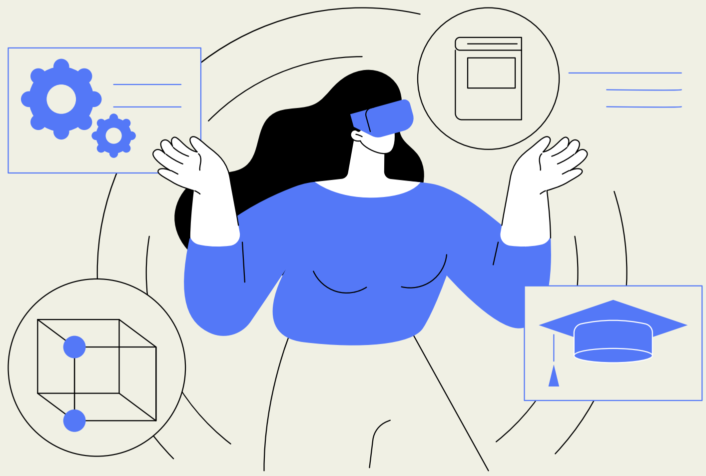
Space utilization in Commercial Real Estate (CRE) constitutes a pivotal facet of corporate real estate and facilities management pertaining to the efficient utilization of physical space within a company's premises. This encompasses monitoring and assessing the usage of various areas within the workspace, such as offices, meeting rooms, common areas, and workstations. The overarching objective of space utilization is to optimize spatial resources while enhancing employee productivity, comfort, and overall organizational efficiency. By striving to create a workspace that aligns with the evolving needs of both the workforce and the business, effective space utilization plays a crucial role in fostering an environment conducive to success and innovation.

Flex space operators have a unique advantage in understanding and optimizing space utilization in modern workspaces. They have been able to prioritize adaptability and versatility, catering to diverse work styles and needs. Flex spaces are intentionally designed to be adaptable, allowing for dynamic adjustments to meet the changing demands of the occupier. Instead of just considering the number of tenants to be accommodated in a space, flex operators look at various factors like occupancy patterns, frequency of usage, available unused space, and workstation costs. This comprehensive approach helps operators understand how space is used and identify areas for improvement. By monitoring space utilization closely, flex operators can optimize resource allocation and improve efficiency. Unused areas can be repurposed or removed from the portfolio to save costs.



Adoption of Emerging Tech

Given the rapid pace of evolving economic activities, it is imperative to reinvent and innovate the workspace. Emerging technologies like virtual reality, augmented reality, artificial intelligence, and IoT offer multifaceted capabilities, however, their adoption in Commercial Real Estate (CRE) remains at a nascent stage. Leveraging the inherent potential of these technologies could serve as a pivot for the modern workspace revolution.



Virtual Reality and Augmented Reality

Virtual Reality (VR) is a technology that utilizes computer modeling and simulation to fabricate an artificial three-dimensional environment (3D), enabling user interaction. This interaction is facilitated through devices like goggles, headsets, gloves, or body suits.

Augmented Reality (AR) is an interactive experience merging the real world with computer-generated 3D content. AR employs computer hardware and software such as apps, consoles, screens, or projections, to integrate digital information with the real-world environment. AR is characterized by three fundamental features: a blend of real and virtual worlds, real-time interaction, and accurate 3D registration of virtual and real objects.

AR places virtual elements in the real world, while VR completely immerses users in a 3D environment. These technologies are advancing rapidly and have great potential for use in workplaces. VR enhances virtual tours with 3D maps, allowing remote exploration of spaces and enabling hybrid meetings that blend in-person and remote participation.

AR simplifies navigation in large offices by providing directions and overlaying information on physical spaces. Both AR and VR aid in visualizing space layouts and enabling decisions. AR overlays different office designs on real spaces for better furniture placement, while VR provides immersive views of proposed layouts.

These technologies also enhance data privacy. AR privacy screens keep sensitive information visible only to authorized users, and VR creates secure virtual environments for viewing confidential data and for training employees on privacy practices safely.

Artificial Intelligence Integration

Artificial Intelligence (AI) is a field dedicated to developing machines that can learn, reason, and perform tasks that traditionally require human intelligence. It employs logic and mathematical algorithms to simulate human reasoning, enabling autonomous learning and decision-making based on new data. AI systems excel in functions such as visual perception, natural language processing, data analysis, pattern recognition, and generating recommendations.

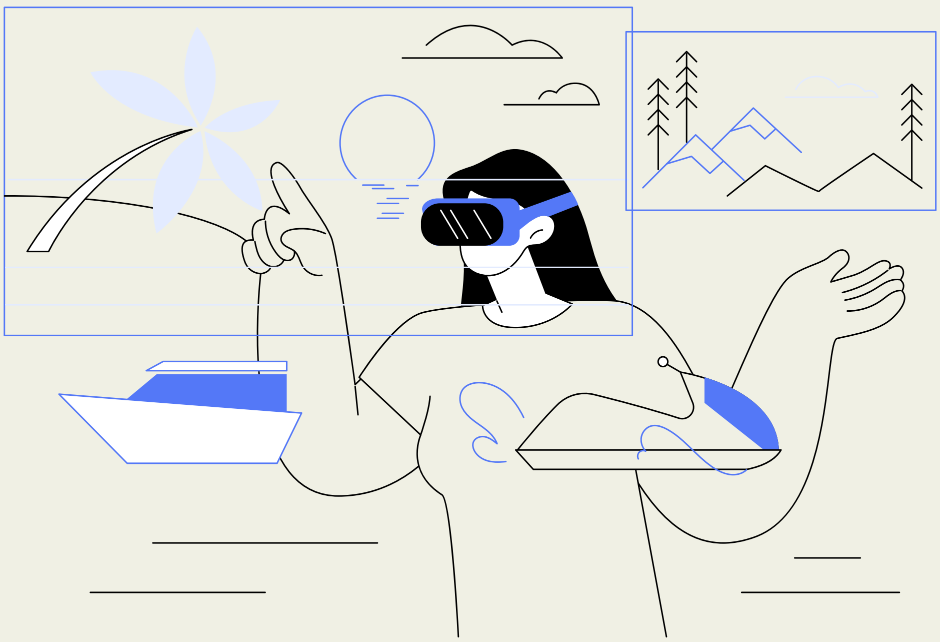
AI is transforming workplaces, especially in data privacy and space usage. It enhances data security by automating tasks like identifying sensitive data and detecting potential breaches. This proactive approach ensures compliance with privacy regulations and builds trust. AI also anonymizes data for analysis while protecting privacy.

In terms of space utilization, AI optimizes workspace efficiency by analyzing usage patterns and suggesting improvements. Real-time monitoring helps adjust space allocation dynamically, and predictive analysis forecasts future space needs for proactive planning.

Emerging technologies not only elevate the functionality and efficiency of the workspace but also enhance the overall experience for its users, blending innovation with practicality to create a modern, dynamic work environment

Internet of Things

The Internet of Things (IoT) is a network of physical devices, vehicles, and other objects connected to the internet with sensors, software, and network connectivity. These devices gather and exchange data, enabling businesses to monitor, manage, and automate operations efficiently. IoT devices are also commonly known as smart devices.



In workspaces, IoT is essential for managing buildings effectively. It uses sensors to monitor conditions like temperature, lighting, and security in real time. These sensors are strategically placed throughout the building to optimize energy use and save costs. For example, IoT thermostats adjust temperatures based on occupancy and time of day. Air-quality monitors detect changes in air quality, to improve comfort for occupants.

IoT also tracks occupancy and traffic flow, helping to optimize office layouts and resources. It automates tasks like booking meeting rooms and managing desk use, making offices smarter and more efficient.

Benefits of Adoption of Emerging Technology in a Workspace

	Adoption of Emerging Technology	Non-Adoption of Emerging Technology
AI	AI algorithms analyse space utilization and member interactions, optimizing layouts and creating productive, comfortable work environments.	Layouts are static, based on initial design assumptions without real-time data, leading to potential inefficiencies and discomfort.
VR/AR	Through virtual tours, VR allows remote exploration of office spaces. AR allows for navigation and information overlays within large complexes.	Physical tours are necessary, limiting accessibility. Navigation and information access within large offices can be confusing.
IoT	IoT sensors monitor temperature, humidity, air quality, and occupancy in real-time, optimizing HVAC, lighting, and security systems.	Environmental conditions are manually monitored and adjusted, leading to potential inefficiencies and delayed responses.

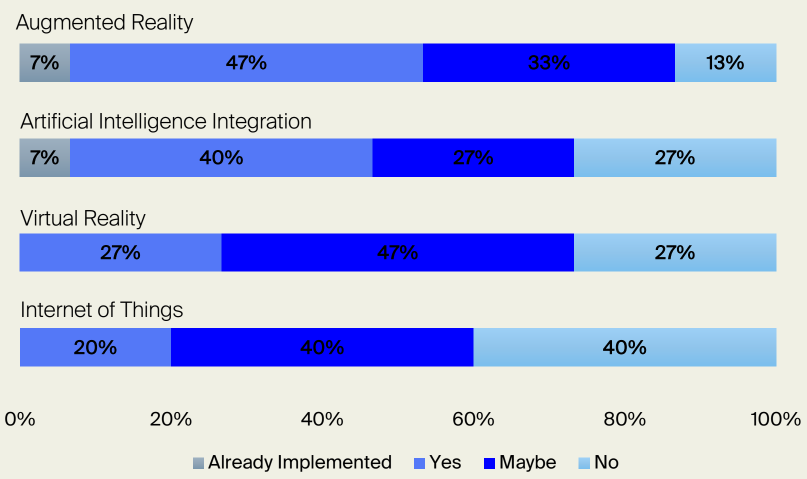
Source: Knight Frank Research

Together, these technologies not only elevate the functionality and efficiency of the workspace but also enhance the overall experience for its users, blending innovation with practicality to create a modern, dynamic work environment.

Emerging Technology Integration and Adoption by Flex Spaces

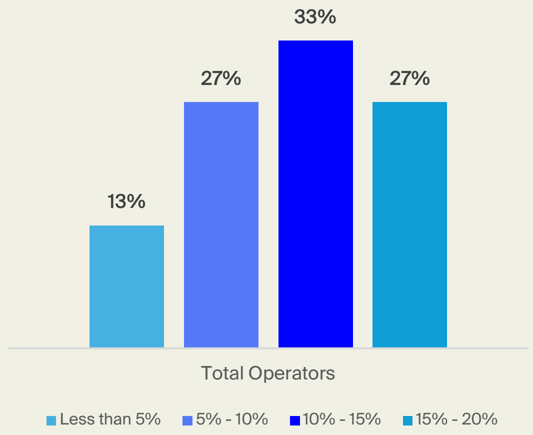
Flex space operators stand to gain significantly from the adoption of AI, VR, AR, and IoT technologies. Delving into our survey responses, it is evident that IoT has emerged as the technology with the highest willingness to be adopted and integrated into flexible workspaces among operators. Following close behind are VR, AI, and AR.

Willingness of Flex Operators towards Adoption of Emerging Technology



Source: Knight Frank Research Flex Operator Survey

Percentage of Annual Budget Allocated towards Technological Upgradation.



Source: Knight Frank Research Flex Operator Survey

Adoption of these emerging technologies, however, require a certain level of R&D and investments. As per the Knight Frank Research Survey, 27% of the flex operators have earmarked between 15% to 20% of their annual budget for technology-related enhancements. This allocation signifies a substantial investment in technological advancements aimed at improving operational efficiency, enhancing user experience, and staying competitive in the market.

Furthermore, the survey indicates that 33% of flexible workspace operators have allocated a slightly lower proportion, between 10% to 15% of their budget, towards technological upgrades. While the percentage is lower, it still demonstrates a notable commitment to incorporating technology to modernize workspace offerings.

Additionally, 27% of operators have allocated 5% to 10% of their budget towards technology-related initiatives, reflecting a recognition of the importance of technology in innovation and meeting tenant needs. Meanwhile, 13% have allocated less than 5%, showing varied investment levels by operators across the industry and differing priorities in expenditure.

3 CHAPTER

The ESG Imperative: Redefining Corporate Value

Environmental, Social, and Governance (ESG) considerations have become central to the strategic agendas of forward-looking organizations, as stakeholders, including customers, investors, and shareholders, place greater value on companies committed to environmental preservation and sustainable development. ESG represents a framework for evaluating a company's conscientiousness for social and environmental factors. The environmental criteria assess how a company performs as a steward of nature; the social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates; while the governance criteria address a company's leadership, executive pay, audits, internal controls, and shareholder rights. Integrating ESG principles is essential for businesses to remain competitive in the long term, demonstrating their commitment to sustainability and responsible management.

The rising importance of ESG is driven by several factors:

Stakeholder Expectations	Regulatory Pressure:	Risk Management:	Reputation and Trust:
Customers, investors, and shareholders increasingly expect companies to adopt sustainable practices. They see more value in businesses that focus on long-term environmental sustainability and social responsibility.	Governments and regulatory bodies worldwide are implementing stricter environmental regulations and following higher social governance standards.	ESG practices help businesses identify and mitigate risks associated with environmental impact, social issues, and governance challenges.	Companies that prioritize ESG enhance their reputation and build greater trust with stakeholders, leading to increased brand loyalty and competitive advantage.

ESG Reporting

ESG reporting is essential for corporate accountability and transparency. Standardized ESG norms enable companies to disclose their sustainability practices and impact, helping stakeholders make informed decisions based on the ESG performance. Implementing ESG reporting can enhance operational efficiency, innovation, and long-term value creation. Companies can choose from various frameworks, both general and industry specific.

The Global Real Estate Sustainability Benchmark (GRESB) is a leading global ESG benchmark for real estate and infrastructure investments. It assesses and benchmarks the environmental, social, and governance (ESG) performance of real estate assets worldwide. Participants, including real estate companies, funds, and developers, voluntarily report their ESG practices to GRESB. The assessment criteria covers environmental impact such as energy, emissions, water and waste; social factors such as community engagement, health and well-being; and governance factors such as risk management and corporate governance. GRESB rates participants based on their performance relative to peers, providing standardized data that investors can use to compare and select sustainable investments. The framework aligns with global reporting standards like the Global Reporting Initiative (GRI) and Principles for Responsible Investment (PRI).

For mainstream ESG reporting, the Indian government has mandated that the top 1,000 listed companies disclose their ESG performance. The Securities and Exchange Board of India (SEBI) requires these disclosures in the Business Responsibility and Sustainability Report (BRSR), replacing the previous Business Responsibility Reporting section, starting with FY 2023 annual reports. The BRSR aligns with global sustainability trends and principles such as the GRI and Task Force on Climate-related Financial Disclosures (TCFD). It aims to standardize information on sustainability, enhancing comparability among companies and serving as a key document for stakeholders, particularly investors.

ESG with respect to CRE

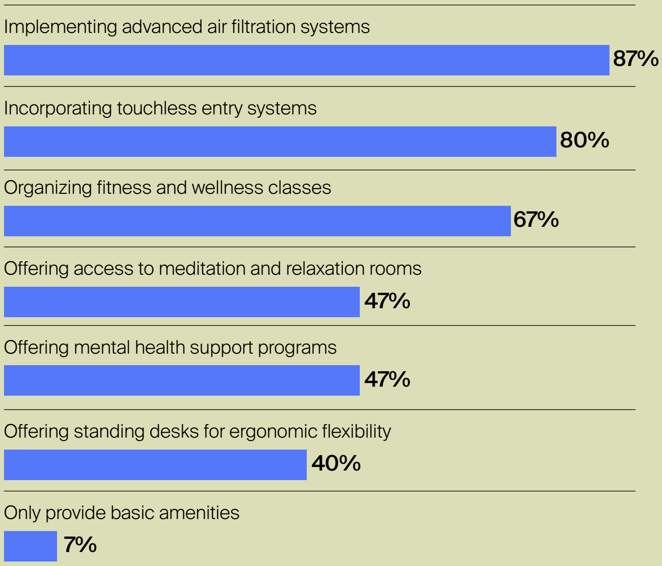
In the context of commercial real estate, ESG factors have become pivotal. The industry has experienced a paradigm shift due to externalities such as climate change, finite resources, and evolving stakeholder expectations. This has shifted the measure of business success from short-term profitability to long-term sustainability. The integration of ESG factors into commercial real estate transactions is gaining momentum for several reasons:

- **Investor and Occupier Demand:**
  There is a growing demand for sustainable practices and eco-friendly structures from both investors and occupiers. This demand reflects a broader societal push towards sustainability and responsible consumption.
- **Value Creation:**
  ESG is now recognized as a value driver in the real estate sector. Sustainable buildings and practices can enhance property values, attract premium tenants, and reduce operating costs through improved energy efficiency and resource management.
- **Regulatory Compliance:**
  Real estate companies are increasingly required to comply with stringent environmental regulations. Adopting ESG practices helps ensure compliance and avoid potential legal and financial penalties.
- **Future-Proofing Investments:**
  Properties that adhere to ESG standards are more likely to remain relevant and desirable in the face of changing regulations and market preferences. This futureproofing makes them more attractive to long-term investors as these companies are in a better position to face any uncertainties.

Flexible space operators are inherently more ESG-driven due to their emphasis on shared resources and the central role of community inclusion and diversity. These operators are at the forefront of integrating sustainable practices and fostering a strong sense of community among their members. To support this claim, our surveyed operators have specified measures they have adopted in the post-pandemic, return-to-office world to ensure the well-being of their occupiers and tenants.

- Implementing Advanced Air Filtration Systems: 87% of the flexible space operators have installed advanced air filtration systems to improve indoor air quality. These systems filter out pollutants and airborne pathogens, reducing the risk of disease transmission.
- Incorporating Touchless Entry Systems: 80% of the operators have incorporated touchless entry systems, such as automatic doors or app-controlled entry systems. These measures minimize the need for physical contact, thereby reducing the risk of surface transmission of viruses.
- Organizing Fitness and Wellness Classes: 67% of the operators organize fitness and wellness classes, including activities such as yoga and nutrition workshops to promote overall well-being of its members.
- Offering Mental Health Support Programs: 47% of flexible space operators offer mental health support programs such as access to counseling services and resources to support mental well-being.
- Providing Access to Meditation and Relaxation Rooms: Similarly, 47% of operators have created meditation and relaxation rooms, which are quiet spaces where employees can relax, meditate, or take a break away from their desks.
- Offering Standing Desks for Ergonomic Flexibility: 40% of operators have integrated standing desks and other ergonomic office furniture. These options reduce physical strain and prevent musculoskeletal problems that can arise from prolonged sitting.
- Providing Basic Amenities: 7% of the operators offer just basic amenities like clean restrooms, comfortable break rooms, and well-stocked kitchen areas that contribute to employee well-being though they may not be as high-tech as some of the other measures.

Initiatives undertaken by flex space operators towards occupier well-being.



Source: Knight Frank Research Flex Operator Survey

The operations of buildings account for 30% of the global final energy consumption and 26% of global energy-related emissions (8% being direct emissions in buildings and 18% being indirect emissions from the production of electricity and heat used in buildings[1]) . By leveraging the intrinsic advantages of flexible and shared spaces, occupiers can significantly enhance their ESG performance and reporting. Flexible spaces are inherently more ESG-oriented due to their efficient use of resources, community focus, and transparent practices.

- Environmentally, flex spaces support sustainability by reducing the need for new land development and construction, thereby lowering environmental impact and minimizing resource consumption. These spaces often invest in energy-efficient lighting, HVAC systems, and sustainable materials, optimizing energy use and enhancing environmental stewardship.
- Socially, flex spaces prioritize connection and communication, fostering interaction, relationships, networking, and collaboration among members. This culture of inclusivity and support improves productivity and innovation, enriched by the diversity of individuals from various industries and backgrounds.
- Governance-wise, flexible space operators engage with a broad range of stakeholders, including members, investors, and the local community. This engagement helps them stay tuned to stakeholder needs and expectations, promoting transparent and ethical practices.

By encouraging the sharing of office spaces, flex operators can aid in reducing carbon footprints and enhance sustainability. Attesting to the importance and adherence of ESG, we have tried to understand initiatives undertaken by flex operators and based on the survey responses, flexible workspace operators intend to prioritize the following areas:

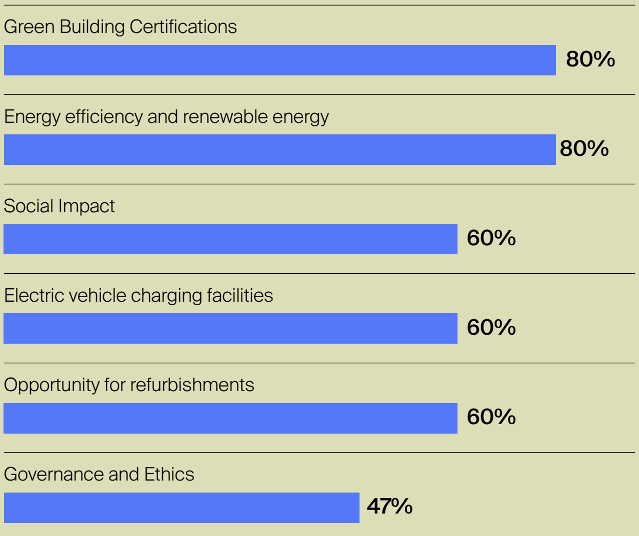
- Green Building Certifications and Eco-Friendly Workspace Accreditations: 80% of the operators have prioritized obtaining green building certifications and eco-friendly workspace accreditations. This reflects a strong commitment to environmental sustainability by adhering to recognized standards and practices that minimize environmental impact.
- Initiatives Related to Energy Efficiency and Renewable Energy: 80% of operators have focused on initiatives related to energy efficiency and the use of renewable energy sources. These efforts are aimed at reducing energy consumption, lowering carbon footprints, and supporting sustainable energy practices.
- Social Impact: 60% of operators have invested in social impact initiatives. These include community engagement, diversity and inclusion programs, employee well-being initiatives, and philanthropic efforts. This highlights the balanced approach undertaken by flex operators towards social responsibility and community support.
- Electric Vehicle Charging Facilities: 60% of operators have installed electric vehicle charging facilities. This demonstrates a commitment to support the transition to electric vehicles.
- Opportunity for Refurbishments: 60% of operators have prioritized opportunities for refurbishments. This involves upgrading and improving existing spaces to enhance sustainability and functionality,

[1] IEA

which can also contribute to extending the life of buildings and reducing waste.

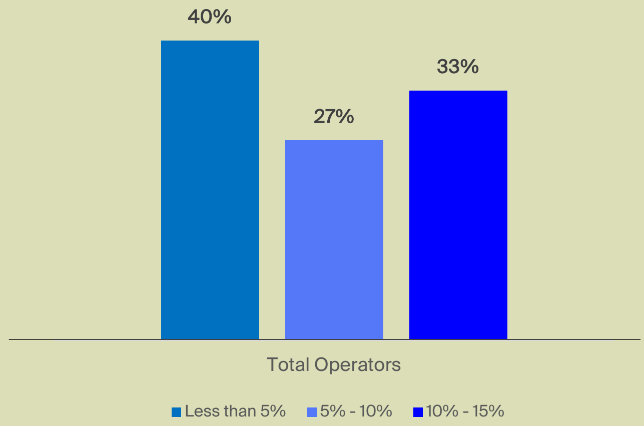
- Governance and Ethics: 47% of operators have focused on enhancing corporate governance, ethical business practices, and compliance with ESG standards. This commitment ensures that operations are conducted transparently and ethically, fostering trust and accountability.

Areas of ESG to be prioritized by Flex Space Operators



Source: Knight Frank Research Flex Operator Survey
* Social: To include initiatives such as investments in community engagement, diversity and inclusion programs, employee well-being, and philanthropic initiatives.
** Governance and Ethics: To include initiatives such as efforts to enhance corporate governance, ethical business practices, and compliance with ESG standards and regulations.

Percentage of Annual Budget allocated towards ESG Initiatives



Source: Knight Frank Research Flex Operator Survey

These priorities reflect a balanced approach to ESG with slightly more emphasis on environmental factors, particularly those related to building certifications and energy efficiency. Social impact and governance are also significant but comparatively less emphasized. Occupiers who use these flex spaces can also account for or leverage the environmental and sustainable initiatives in their ESG reporting.

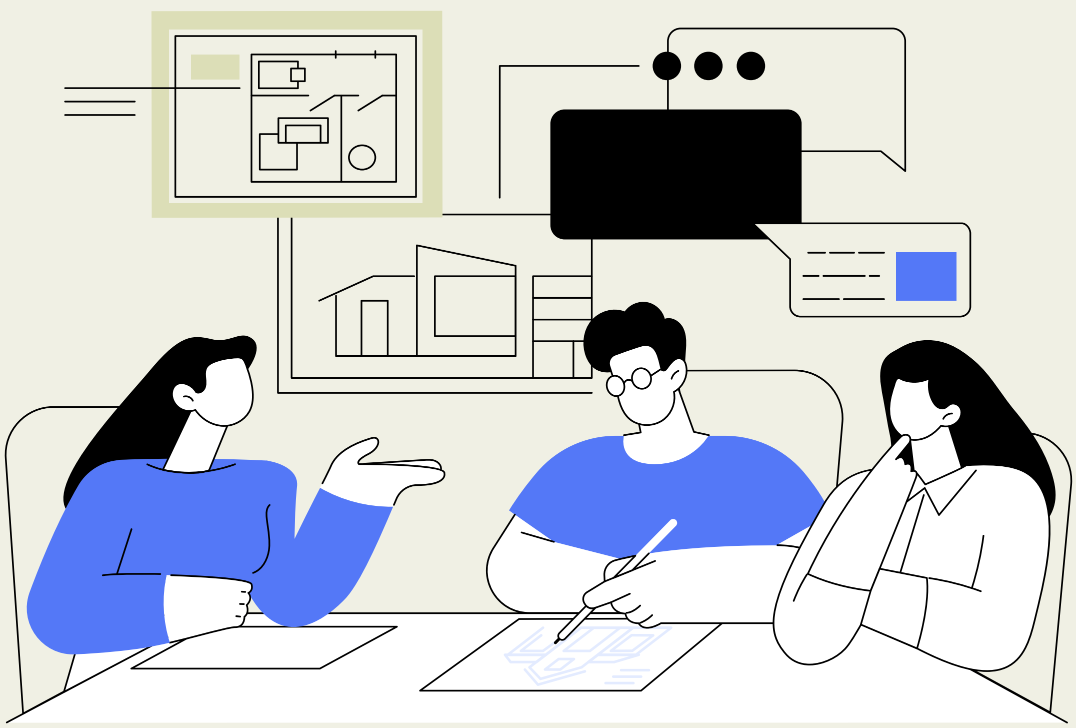
Inculcating sustainable workspace design and practices and engaging with the community at large requires significant investments and spends. As per the survey conducted by Knight Frank Research, the results indicate that 60% of the surveyed flex operators intend to allocate anywhere between 5-15% of their annual budget towards ESG initiatives, suggesting a strong commitment to sustainability and responsible business practices within this segment of commercial real estate.

ESG Advisory for Flexible Space Operators

For flexible space operators who may not possess a green building certification but aspire to make their workspaces more sustainability compliant, the following advisory measures can be incorporated to enhance environmental sustainability, occupant well-being, and enhance overall ESG performance over the course of time:

- Water Efficiency: Use low-flow fixtures and dual flushing WCs.
- Adaptive Layout:
  - Dimmable lighting
  - Flexible seating
  - Incorporate natural elements and provide views of nature.
  - Ensure visual privacy.
- Quiet Zones: Create acoustically and visually separated areas for focused work.
- Natural Design: Use natural materials, patterns, shapes, colours, and sounds.
- Lactation Rooms: Provide equipped lactation rooms for nursing mothers with work surfaces, chairs, locks, refrigerators, microwaves, and storage.
- Quality Display: Display water and air quality metrics.
- Energy-efficient Lighting: Use 100% LED lighting with task lighting.
- Smoke-free Environment: Eliminate smoking areas.
- Bathroom Provisions:
  - Trash receptacles
  - Menstrual products
- Smart Sensors: Use daylight and occupancy sensors.
- Low VOCs and Green Cleaning: Use low VOC materials and green cleaning products.

By adopting any or some of these measures, flexible space operators can significantly enhance their sustainability profile, align with ESG goals, and provide healthier, more productive environments for



4 CHAPTER

Concluding Remarks

The question we raised earlier was how future-ready flex space operators are to adapt to evolving demands. Our assessment indicates that flex space operators are well-positioned to meet the changing commercial real estate needs. Following is an evaluation of our assessment:

Economic Growth and Real Estate Expansion

India's economic growth is gaining momentum with pro-business leadership expected to continue for another five years. The GDP is projected to grow by 7% in FY 2025 and reach USD 7 trn by 2030[2]. This growth is driven by stable domestic demand, expanding private consumption and investments, structural reforms, and a robust financial sector. According to Knight Frank Research, India's office stock is estimated to reach 0.25 bn sq m (2.7 bn sq ft) by 2034. This increase in office space take-up is favourable for flex space operators, who are known for their versatility and adaptability, making them integral to the modern workspace ecosystem.

Expansion Plans and Market Penetration

As per the Knight Frank Research Survey, flex space operators plan to expand in the next 2-3 years. Survey participants have indicated their intentions to expand not only in Tier 1 cities, but also in Tier 2 cities. NCR and Bengaluru are the top choices for Tier 1[3] cities, while Coimbatore, Jaipur, Nagpur, and Mysuru are the top choices for Tier 2[4] cities. The sustained increase in office transactions and the rising share of flex spaces as a percentage of the office space market indicate steady and calibrated growth of the industry.

Flex Space Industry Evolution: Coworking to Managed Offices

Managed offices now make up 65% of the flexible workspace market, reflecting their growing appeal among occupiers. The flex space industry has evolved significantly from its origins, starting as a coworking player catering mainly to entrepreneurs and freelancers, to becoming a dominant player favoured by medium and large enterprises. Managed offices now comprise a large portion of its offerings, reflecting the industry's ability to adapt to the changing needs of businesses by providing customized, flexible office solutions.

Integration of ESG and Technology

New-age occupiers are increasingly influenced by strategic considerations such as ESG factors, as well as the integration of emerging technology in business operations. These elements are becoming essential in commercial real estate considerations. Flex space operators, champions of space utilization and tech, are making significant investments in emerging technological advancements aimed at further improving space utilization and operational efficiency, enhancing user experience, and staying competitive in the market. Operators are also inherently more ESG-driven due to their emphasis on shared resources, community inclusion, and diversity. They are taking additional measures to ensure the sustainability of their operations through further investments in ESG initiatives. This benefits occupiers as they can leverage the inherent advantages of operating from the flex space industry in their ESG reporting, a mandate now for most of the companies[5].

Conclusion

Flex space operators are aligning their operations to be increasingly future-ready, to adapt well to the evolving demands of the commercial real estate market. Their commitment towards investments in technology and ESG initiatives, and the proposition of fluidity in real estate, position them strongly to cater to modern business needs. The economic resilience and growth prospects of India further bolster the positive outlook for the flex space industry, suggesting a promising future ahead.

[2]The Finance Ministry

[3]Other Tier 1 city operators in the survey include Chennai, Ahmedabad, MMR, Hyderabad and Kolkata.

[4]Other Tier 2 city operators in the survey include Indore, Chandigarh, Kochi, Lucknow, Surat, Bhopal, Thiruvananthapuram, Goa, Raipur, Mangaluru and Bhubaneshwar.

[5]Top 1,000 companies by market capitalization in India have to report BRSR mandatorily in their Annual Report (as discussed in the ESG Chapter)

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INDIA WAREHOUSING REPORT

Research
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