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A NEW TENANCY MODEL IN REALTY

Co-working spaces, with plug and play managed offices, are not only good for tenants, they are doing equally good for property owners



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A recent research by JLL indicates that the leasing activity remained largely slow in the Delhi-CBD particularly in the first quarter of 2017. This is due to lack of vacancy in quality assets, and only select occupiers taking up space. The main reason for the vacant space is that the properties are at a corner of a building where a new company may not want to set an office, the size of the properties are either too big or too small to rent it out to one tenant. Also, the property which is vacant for a long period finds it difficult get a new tenant at premium price.

Co-working spaces have presented a new commercial tenancy model which is able to solve all these problems of landowners and are also able to give them better rental yields. Indian real estate is on the cusp of changes and these models are likely to disrupt the way commercial office market functions.

In traditional leasing model, a space is rented on per sqft basis and yield a fix rental. On the other hand, co-working operators bring a unique way of leasing for the landowners where they are able to get better rental yields depending on the amount of space occupied by the tenants at any given point in time. However, it's the responsibility of a co-working operator to keep the space filled and do marketing of the space. Co-working spaces furnish the whole office and give a chunk of it to the interested tenants in form of desk, cabins, meeting rooms etc. With co-working spaces, most part of the office is under utilisation which yields better rentals.

In fact, the interest in co-working spaces has been seen from the players like Amazon,

Alibaba, Paytm, who have their teams working from co-working spaces. Interest from such players further reinforces the belief of landowners to rent out their properties to co-working spaces.

Among the main drivers of this phenomenon are the increasing number of freelance professionals and consultants in today's globalised workforce, for whom co-working spaces are now all the rage across Indian metros. Also, co-working business centres are in great demand with corporates looking for flexibility in work locations. Savings in cost and having a serviced office space without the need to carry the overheads are the key advantages of co-working spaces concept. Also, since the space is generally part of a larger facility, one can have access to and utilise shared facilities like parking, security and cafeteria.

In India, particularly in cities like Delhi-NCR, Mumbai and Bangalore, where the cost of ownership and maintenance is huge, this practice is fast gaining traction where demand is driven by the increasing number of start-ups as well as established corporates looking for additional space on a temporary basis. The initial setting up of an office space may be a tedious task for a small start-up coupled with a huge financial commitment.

According to a recent report from Colliers International, more than 1.2 million sq.ft. spaces were leased by co-working operators in India in 2016, which accounted for 3 per cent of the overall leasing volume. "Although it presently represents only a small share of the total leasing demand, in the medium to long term it is expected to be an integral part of the traditional office-leasing segment with approx. 8 million sq.ft. leased-out space by 2020," anticipates Deep Kantawala, head - ICS Real Estate Partners and CFO - ICS Group,



a diversified real estate and financial services group. This will be primarily driven by the start-up segment where India is currently the third largest nation for start-ups and the number growing at a rapid pace given the various incentives announced by the government.

Currently, Bengaluru has the highest concentration of co-working hubs followed by Delhi-NCR and Mumbai. "Although the current focus is to set up co-working spaces in the CBD and SBD locations of these cities, we believe that in the long run there would be expansion to the peripheral areas as the physical infrastructure continues to be developed further reducing the overall travel time for the users," adds Kantawala.

Since Delhi-NCR is among the prominent regions witnessing this global trend. "In 2016, the number of co-working spaces in Delhi-NCR was more than 30; this year, it is expected to go over 40," says Nitish Bhasin, managing director - markets, JLL India, further updating, "there are currently more than 2,500 seats available across different micro-markets in NCR. The average occupancy share of co-working office spaces across NCR is about 70-75 per cent, but will go up once the recent seat additions in most micro-markets are leased out. Of all micro-markets, CBD Delhi has the lowest vacancy in this segment at 8-10 per

cent. All other micro-markets have vacancy levels in a range from 20-35 per cent." Some of the major co-working spaces in Delhi-NCR are run by firms like Awfis, InstaOffice, Innov8, 91 Springboard, Investopad, Alt F, Skootr and Footprints among others.

Gurgaon more specifically has always been the millennium city as well as the commercial hub of India where the trend of co-working is a rage now. "Catering to this growing need of creative and growth-oriented working, we have launched Footprints that aims to redefine co-working spaces by resonating with the modern day work culture. The first centre of Footprints has opened in Gurgaon on the Golf Course Road at Vatika Atrium. We are currently also offering exclusive early-bird offers for move-ins in the next two months," avers Vineet Taing, president, Vatika Business Centre.

Awfis currently operates five proprietary centres in Delhi-NCR at prime commercial locations and also operates a Mobile Awfis for professionals who want to save commute time productively. "Third party alliances with leading hospitality partners adds to the inventory of meeting rooms across locations within the NCR which can be booked in a just-in-time basis through our mobile app," divulges Amit Ramani, founder and CEO, Awfis Space Solutions.