SEIZING OPPORTUNITIES:  Making CRE agile in a dynamic business environment
FOREWORD

Over the last few decades, India has been one of the most preferred global hubs for back-office services. While residential property is front runner in terms of volume, there is no denying the sizeable impact that Commercial Property makes on the sector. But there is a lot impacting the market – technology and data usage; new business models; changing occupier demands; policy reforms etc. Therefore, a changing world means a new focus on how business is conducted – only the agile will survive and thrive.

With the way technology is impacting us in every facet of life and business – collectively our goal must be to build data management capabilities among professionals, help embed use of new technology across the built environment sector and generate new avenues for value creation from the vast amounts of data now available.

As a 21st century sustainable professional body, RICS intends to be at the forefront of change by demonstrating benefits, helping shift mindsets and making sure that support is available to help bridge any professional divide that exists in the sector today – be it with respect to competencies, capabilities, standardisation of practice, technology adoption, self-regulation etc all of which are key components to wider stakeholder assurance, leading to much needed market confidence.

Nimish Gupta FRICS
Managing Director, South Asia
RICS
FOREWORD

Amidst the ongoing economic slowdown in India, commercial real estate (CRE) continues to stride ahead. India has seen its first REIT listing – a momentous occasion for the industry, and has witnessed the highest ever office space demand last year at 50 million sq feet. The commercial office sector has emerged as the most attractive segment to foreign investors, and global occupiers continue to be optimistic about their expansion in India. Be it changing occupier profiles or newer business models, we are witnessing an important trajectory of CRE.

In such a scenario, technology is spearheading the way we work and how we work, and with its adoption, the commercial real estate sector is on the cusp of change. So what will shape the sector in the upcoming years?

In this report, Colliers International explores how CRE can be nimble and respond to new business models emerging. We believe that the next decade will usher in new formats of workplaces, with landlords emerging as wellness creators, where occupiers amalgamate workplaces and technology to increase productivity at workplaces. The report peaks into the future to explore how occupiers’ preferences are changing and how the industry can seize opportunities.

Overall, the last five years have been momentous for CRE, but we believe that the next five years will have the potential to take the sector to great heights as the sector embraces professionalism, and better corporate governance. Together, all stakeholders need to come together as an industry to make it more sustainable, and urge the government to create a stable policy environment by making the real estate sector transparent, expediting approval process, promoting single-window clearance for projects, and rationalizing labor laws.

Ritesh Sachdev MRICS
Head of Occupier Services, India
Managing Director, South India
Colliers International
WILL CRE TIDE OVER THE CURRENT SLOWDOWN IN INDIAN ECONOMY?

The Indian economy, which had been the fastest-growing economy since 2017, lost this tag to China in Q1 2019. Further, India’s quarterly Gross Domestic Product (GDP) growth slowed to a six-year low of 5.0% in Q2 2019 due to sluggish domestic demand and modest investments.

However, despite the ongoing sluggishness, Moody’s Investors’ Service is forecasting the economy to accelerate moderately to 6.2% in 2019. We believe the growth to be driven by firming of investments, and policy measures that will further strengthen investors’ confidence.

India has been consistently rising in the World Bank’s Ease of Doing Business index.

Reforms such as the introduction of the Goods and Services Tax (GST), streamlining the process of obtaining a building permit and improved building quality controls in Delhi and Mumbai steered India’s rise in ranking.

Figure 1: India ranking in ‘Ease of doing business’

We believe that India’s rise in 2018 has cemented the reformist credentials of the current government.

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We view the Narendra Modi-led NDA union government to be investor friendly, having liberalised foreign direct investment (FDI) norms. We credit the government for enabling greater transparency in the real estate sector through the enforcement of Real Estate Regulatory Authority (RERA). Our analysis of various government initiatives, and their impact:

**Make in India**
- Lack of enforcement of contracts
- Lack of skilled workforce across industries
- Challenges in land acquisition
- Intermittent power and infrastructure

**Smart Cities Mission**
- Overlapping implementation authority including city-specific Special Purpose Vehicle (SPV) legislations delaying implementation
- Proposals not inclusive and difficult for economically disadvantaged to access
- Industry lacks technical skills and exposure to massive developments, delaying implementation of the plan

**Foreign Direct Investment (FDI) norms liberalization**
- 100% FDI permitted under automatic route for several sectors such as construction development, airports, automobiles, contract manufacturing and sale of coal for coal mining activities
- FDI has displayed a 33.0% increase in absolute numbers from USD43.1 billion (INR323,550 crore) in Financial Year (FY) 2015 to USD60.9 (INR431,400 crore) in FY18

**Goods and Services Tax (GST)**
- Since the enforcement of the GST in July 2017, tax base has risen 50.0%, with the addition of about 3.4 million more tax payers
- Actual GST collection for April 2018-March 2019 was around INR5.8 lakh crore (USD80.7 billion), a shortfall of over 20.0%, compared to the Union budget projection
- The GST's four tax slabs makes it cumbersome

**Real estate investment trusts (REITs)**
- Securities and Exchange Board of India (SEBI) reduced the minimum subscription limit for REITs from INR2 lakh (USD2,900) to INR150,000 (USD225)
- Exemption of dividend distribution tax on REIT SPV
- Investment cap in under-construction projects is raised from 10.0% to 20.0%

**Start-up India**
- Beset by bureaucratic inefficiency
- Tax benefits skewed towards patents disadvantage some sectors like software

**Real Estate (Regulation and Development) Act, 2016 (RERA)**
- Some states like Maharashtra have a strong RERA in practice
- Gaps in RERA enforcement across other states led by non-existence of website in some states, and dilution of central law by others
- Website lacks important information such as real-time updates on judgements, quarterly updates by developers
- Redressal taking more time than anticipated

**Land Acquisition, Rehabilitation and Resettlement Act, 2013 (LARR Act)**
- Land acquisition is on concurrent list, making it ambiguous for all parties involved
- High level of buy in by affected households delaying implementation

**Insolvency and Bankruptcy Code, 2016 (IBC)**
- Between April 2018 and March 2019, financial institutions recovered close to INR70,000 crore (USD10.8 billion). In comparison, between April 2017 and March 2018, recoveries under the preceding regime through channels such as debt recovery tribunals, reconstruction of financial assets, and enforcement of the securities interest act (SARFAESI) stood at INR35,000 crore (USD5.1 billion)
- Time taken for successful resolution often exceeds the timeline of 270 days, as envisioned under the law
- Concerns remain regarding the eligibility of bidders, and the procedure for closing down viable businesses

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Notes:
1. Housing and Land Rights Network’s report on Smart Cities Mission
2. Concurrent list has subjects in which both Parliament and state legislatures have jurisdiction
3. Under automatic route, foreign investor does not require any approval from the Government of India for investment
4. The Economic Survey 2018
6. GST council has fitted over 1,300 goods and 500 services under four tax slabs of 5%, 12%, 18% and 28% under GST
7. CRISIL
In our view, the period between 2015-2018 has been instrumental in changing the face of the sector, with developers placing importance on corporate governance and fiscal prudence. We also expect the commercial sector’s fast-paced move towards institutionalization, as foreign investors buy into the rapidly growing sector. We think investor confidence is strengthening, with foreign investors having invested USD15 billion (INR103,520 crore) in the Indian real estate industry over 2015-H12019. Despite the reforms initiated by the government, there are certain operational concerns that remain. The table below identifies the top challenges faced by the sector, and recommendations to ensure success.

**Figure 3:** Real estate challenges and recommendations

- **Upcoming sunset clause for special economic zones (SEZs)**
  - Delays in approvals from statutory authorities cause cost escalation for developers. Approval and compliance costs account for 10.0%-15.0% of total project costs for a developer.

- **Our Recommendations**
  - The government should extend the sunset date for income tax benefits for units in SEZs by five years. The sunset clause allows SEZs set up before March 31 2020 to claim tax benefits.
  - This should help ensure that the urban job creation in the Information Technology-business process management (IT-BPM) industry remains strong.
  - A Single window clearance system should be adopted wherever regulatory approvals are required.
  - Deemed approvals should be implemented in case of failure to approve within set timelines. This should enable developers to speed up projects and more successfully manage their development cycle.
  - While single-window clearances have been enforced in Mumbai and Delhi and also in some states like Telangana, we urge state governments to take this up on priority to enhance business confidence.
Limited channels of funding  
Lack of infrastructure in peripheral locations  
Curbed returns from REITs  
Fragmented industry standards

- The government should consider removing investment threshold limits for foreign portfolio investors into real estate through listed/unlisted non-convertible debentures under the FPI route.
- This should help broaden investment channels in CRE.
- The government should prioritize roadway development and also incentivize developers to develop infrastructure.
- The government should consider increasing the Floor Space Index (FSI) for developers who meet certain infrastructure development thresholds.
- Capital gains must be exempted on the transfer of assets from SPV to REIT, for at least the initial three years.
- Exemption or standardization of stamp duties should make REITs more attractive.
- The real estate sector needs a well-defined legislation that details standards for fire safety, building control, parking and accessibility, amongst other factors.
- As the sector moves towards transparency brought about by professional management, consistent disclosure and reporting norms need to be adopted across the sector.
In 2019, Colliers forecasts investments into real estate to be about USD6.5 billion (INR46,740 crore), with office investments garnering the highest share.

We believe that easing of FDI norms over the last few years, enforcement of RERA, and a strong office leasing market, have not only improved the perception of the Indian market among foreign institutional investors, but also increased their investment appetite.

Investments in the residential sector have been limited since 2017, with investors’ shifting gears towards the commercial office sector.

Investors, both foreign and Indian, are buoyed by the commercial office sector, which is witnessing robust office demand. Investors are looking to bundle up assets and list them as REITs, capitalising on the solid demand. In 2018, we noted gross absorption of about 50 million sq feet (4.6 million sq meters) across major cities in India. Apart from the mainstream real estate assets, we believe that alternative asset classes such as student housing and coliving are seeing increased traction from investors. We believe that these alternative housing models can, in a way, assuage the slowdown in the residential market.
Since 2008, we note that private-equity (PE) players have pumped nearly USD56 billion (INR402,640 crore) into real estate, with domestic investors accounting for 57.0% of the inflows. Over the last five years, foreign investors have been focused on commercial office assets. Blackstone’s emergence as the biggest landlord in the Indian market has been telling of the robust investor confidence in the continued healthy demand and the resultant rental growth in the Indian commercial office market. Blackstone has invested about USD4 billion (INR28,760 crore) in office assets in India, with operational space of about 69.0 million sq feet (6.4 million sq meters), and under-construction space of 45.0 million sq feet (4.2 million sq meters).

Following Blackstone, investment groups such as GIC, Brookfield, Xander and Canada Pension Plan Investment Board (CPPIB) have been betting on the commercial office market. Investor confidence has surged, buoyed by strong demand by domestic and foreign occupiers, and the slow institutionalization of the sector, that is adopting better corporate governance standards.

This has also led to keen interest in projects under-construction in top markets. Between 2014-H1 2019, Colliers notes that foreign investors accounted for 70.0% of total office investments.

We advise investors to enter into partnerships and Joint Ventures (JV) for assets under-construction, keeping in view the higher risks.

Colliers’ future supply projection of 160-180 million sq feet (14.8-16.7 million sq meters) over 2019-2021 should support investors’ appetite, who till now faced a lack of investible assets in cities like Bengaluru and Hyderabad.

We believe that foreign investors now have a long-term view of the market, instead of being merely opportunistic. In fact, we note that foreign investors chasing portfolio-level deals have increased since last year, signaling long-term commitment in the Indian market. Typically, portfolio-level deals span across projects and locations, and involve larger financial investment.

Going ahead, we are noticing increased interest from investors in Asia especially from Japan and South Korea. Colliers market information indicates that Japanese conglomerates are looking to buy land and develop commercial projects in India. Per Real Capital Analytics (RCA), Japan invested around USD324 million in 2019 through July, which is 3.5 times higher than their investments in all of 2018.

Mitsubishi invested USD25 million (INR180 crores) to acquire a 70.0% stake in Shriram Properties’ residential project at Chennai, marking its maiden investment in the Indian real estate sector. In August, property firm Sumitomo Realty bought a three-acre plot in Mumbai’s Bandra-Kurla complex for about USD320 million (INR2,200 crores).

The listing of the first REIT in India has served as a benchmark for similar listings, and we believe it has enthused developers and investors to hasten aggregation of commercial office assets. Blackstone and K Raheja are planning to offer REITs and started to work on the process of filing papers with the regulator for the proposed listing. At a time when India’s first REIT has been successful, with more listings on the way, professional management and international standards-based valuation of properties (such as: International Valuation Standards, IVS/RICS Red Book) need to be adopted, along with necessary disclosure and reporting norms. A common property measurement standard such as the International Property Measurement Standards (IPMS) should also help in removing inconsistencies in the way property is measured from one market to another, thereby improving property market data and market transparency.

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**More REIT Listing Underway for Indian Markets**

**Figure 4: India, Prominent platform deals in real estate, 2019**

- **US$ 1000 mn** Retail Sector
  - Warburg Pincus
  - Runwal

- **US$ 250 mn** Office & Retail Sector
  - Taurus Investment Holdings
  - Sage Funds Management

- **US$ 150 mn** Office Sector
  - Allianz Real Estate
  - Godrej Group

Source: Media reports, Colliers International

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11 More REIT Listing Underway for Indian Markets

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INVESTORS SEE UPSIDE IN TECH-DOMINATED CITIES

With India’s first REIT being successful, investors are buoyed by office assets. As per Colliers’ report investors in India look to Office, Data centers April 2019, investors have preferred Bengaluru as their top investment destination among top cities and named Pune as the top destination among emerging cities.

Figure 5: India, Institutional investors’ preferences across locations

*Preferences are based on average ranking of cities in the survey. The cities have been classified into established markets, and emerging markets for analysis

Source: Colliers International

https://campaigns.colliers.com.au/s/eea5c2165e0fbf499a2b66a1494e76c41f0d1c1
Colliers data indicates between 2014 and Q2 2019, domestic investors accounted for 48.0% of the total funding in real estate. However, with the non-banking financial company (NBFC) liquidity crisis since September 2018, domestic investors’ funding share into the sector has declined to a 34.0% share.

The sluggishness in the residential market continues with respect to low sales and reduced credit from NBFCs. Hence, we anticipate a slow recovery, as the government plans to stabilise the sector by implementing policy reforms. We believe that the government’s guidelines to infuse INR1 lakh crores (USD14.3 billion) into a partial guarantee scheme should provide much-needed liquidity to the NBFC sector and, in turn, enable them to continue to play their role in meeting the financing requirements of the productive sectors of economy, including MSME, retail and housing.
A PEAK INTO THE FUTURE

DISTRESSED ASSETS IN FOCUS

Over the next two years, we expect to see investors announcing or raising funds specifically for distressed assets. Over the last few months, entities including Embassy REIT SPV and Kotak Realty Fund have set their eyes on stressed assets, with an aim to turn them around.

According to our report, Investors in India look to Office, Data centers April 2019, in the coming year, around 63.0% of the investors said they are likely to invest up to 20.0% of their investments in distressed assets.

We believe that while distressed assets are a good opportunity for investors to acquire assets below market value, it is often fraught with legal challenges in India, and therefore, should only be attempted by the most sophisticated and well capitalized investors with sufficient appetite for risk.

DATA CENTERS ON INVESTORS’ HORIZON

India is the second fastest digitizing economy after Indonesia, according to a recent study by McKinsey Global Institute, and the Indian cloud computing market will likely grow to USD7.1 billion (INR51,050 crore) in the next three years, from USD2.5 billion (INR 17,980 crore) in 2018. In such a scenario, we believe that India stands to gain as a data center destination, with foreign internet companies such as Google, Amazon likely to drive demand.

As companies jump onto the bandwagon, we foresee investors scouting for opportunities in data centers. Private equity firm Actis is in talks with global IT companies to set up data centers in India. Additionally, Bain Capital-backed Bridge Data Centers is investing in data centers in India.

The rising demand for data centers has resulted in large Indian conglomerates venturing into this segment. For instance, Hiranandani Group and Adani have announced a foray into the data center market in India, intensifying the race for market share.
We believe data centers receive a huge boost from the Personal Data Protection Bill 2018, which mandates that data needs to be stored and processed in India. Moreover, as companies increasingly move towards cloud platforms, we foresee increased need for data centers.

We do, however, recommend that investors enter the segment only if they can sustain long investment cycles, as data centers take longer time for achieve returns.

We expect Mumbai to continue to lead in data center growth, as it has the highest submarine cables landing in the country.

We advise state governments to ensure that digital infrastructure such as fiber cable are in place, to capitalise on the growing demand for data centers in other cities such as Hyderabad, and Chennai.

Between 2017-H1 2019, investors pumped USD1.5 billion (INR 10,785 crore) into logistics and warehousing assets, with foreign investors accounting for 90.0% of the inflows. The government’s granting of infrastructure status to the logistics sector has enabled cheaper finance. Moreover, the adoption of the GST is spurring development of centralised, and modern warehouses.

We are now noting that developers are providing specialised specifications for warehouses, customizing it for sectorial requirements, such as e-commerce, electronics, FMCG, or pharmaceuticals.
The growth of demand and resultant rentals in the commercial office sector in India has been strong, defying the slowdown seen in the real estate sector especially in the housing sector. We note that occupiers are buoyant about their long-term prospects in India, as they continue to expand and consolidate.

Between 2019-2023, we foresee average annual gross absorption of 50.3 million sq feet (4.7 million sq meters), outpacing the annual average gross absorption of the preceding five-year period by about 18.0%.

We expect demand to be driven by Information Technology-Business Process Outsourcing (IT-BPM) occupiers, as well as pharmaceutical, engineering and manufacturing companies, for their global in-house centers (GICs). We noted net absorption at 21.8 million sq feet (2.0 million sq meters) in H1 2019, led by strong net absorption in Q2 2019, which increased 10.0% QoQ, indicating positive business sentiment, in part, as a result of re-election of the NDA government. During 2018, we noted gross absorption at its highest ever, led by increased take-up of space by occupiers for their GICs and by flexible workspace operators.

We project strong supply in 2019, with almost 68.0 million sq feet (6.3 million sq meters) coming onboard, hinging on timely completion and approvals from regulatory authorities. Led by the high supply, we forecast vacancy levels to inch upwards by the end of 2019 to 15.1%, from 10.6% at the end of 2018.
Chart 3: India, Office supply, absorption and vacancy trend and forecast

Source: Colliers International
BENGALURU EMERGES AS THE TOP LOCATION IN ASIA FOR THE TECHNOLOGY SECTOR

During 2019, we expect gross absorption in Bengaluru to touch about 14.0 million square feet (1.3 million sq meters), accounting for about 28.0% of total gross absorption across India’s top seven cities. As seen in our report Tech Jewels released on 27 May 2019, Bengaluru emerged as the most attractive location for technology occupiers. The report examined 50 criteria under three headings, including socio-economic factors (50.0% weighting), property factors (30.0%) and human factors (20.0%). Each factor was assigned a score for analysis. We saw Hyderabad as an attractive alternative location for technology occupiers, placed seventh on the Asia list.
We assign each TMT submarket a score of ★, ★★ or ★★★★ on each of:

- Existing tech cluster
- Availability of quality office stock
- Accessibility
- Rent

**Shanghai**
- Caohsiung
- Zhangjiang
- Yangpu

**Seoul**
- Gangnam
- Pangyo

**Shenzhen**
- Hi Tech Park-Middle Zone
- Hi Tech Park-South Zone
- Houhai

**Singapore**
- Shenton Way/Tanjong Pagar
- City Hall
- Raffles Place New Downtown

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Source: Colliers International

* Namely Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune
We believe that Hyderabad is the fastest-growing commercial market, as occupiers remain enthusiastic about the pro-investment state government, whose policies support the quality infrastructure development in the city. The availability of talent and competitive rentals that are about 45.0% lower compared to Bengaluru are driving occupier demand in Hyderabad. Keeping these aspects in view, we forecast gross absorption in Hyderabad to touch about 9.5 million sq feet (882,580 sq meters) during 2019, for the first time ever, led by technology companies and flexible workspace operators.

Several players such as TableSpace, WeWork, The Executive Centre, SimpliWork and iSprout, among many others, have expansion plans in Hyderabad in the second half of 2019. By the end of 2019, we expect leasing by flexible workspace operators in Hyderabad to reach record levels of 2.0 million sq feet (185,870 sq meters).

With occupiers pre-committing to large spaces with low vacancy levels in Madhapur and Gachibowli, we project that about 60.0% of the upcoming supply of around 18-20 million square feet in 2019 is already pre-committed.

While both these micro markets currently have sub-5% vacancy, we forecast about 55 million sq feet (5.1 million sq meters) of planned supply between 2019-2021 in these locations.
Overall, we expect the buoyant leasing momentum to escalate overall city rents from INR45.8 per sq foot per month (USD0.6 per sq foot per month) in H1 2019 to INR52.0 per sq foot per month (USD0.7 per sq foot per month) by end of 2023.

Despite the influx of a huge quantum of Grade A supply, we see a preference for Grade A premium buildings by occupiers in Hyderabad and hence project a rental increase of 2.1% CAGR over 2019-2023.

In April this year, the Telangana government unveiled the Look East plan, under which it plans to develop the eastern part of the city as an IT corridor. Over the next ten years, we can expect some developer activity in areas such as Uppal, LB Nagar, Keesara and Shamirpet.
Flexible Workspaces Fast Gaining Ground

Looking at take-up over the last five years, we notice that demand has become more broad-based. While IT-BPM and technology companies continue to remain the mainstay, the share of the sector has tapered, giving way to newer sectors such as flexible workspaces.

Leasing by flexible workspace operators in 2018 was the largest on record, and we expect this year’s leasing to touch 8.8 million sq feet (817,840 sq meters) as operators rush to capture enterprise demand. We believe that leasing by flexible workspace operators should account for about 19.0% of total gross leasing in 2019, up from 7.0% in 2017. We advise banking and financial occupiers who have data privacy concerns to consider managed office space, a hybrid of flexible workspace and traditional leased space that ensures confidentiality of operations, and protection of data.

We recommend flexible workspaces operators invest in technology to provide services like cashless payments and seat booking, among others, to differentiate themselves in this highly competitive segment. We also expect consolidation in the segment to garner pace from next year, as larger companies with financial discipline acquire smaller setups for inorganic growth.
Chart 5: India, altering demand drivers

2018

- IT-BPM: 42%
- Flexible workspace: 14%
- BFSI: 12%
- Engineering & Manufacturing: 9%
- Consulting: 5%
- IT-BPM: 59%
- Flexible workspace: 14%
- BFSI: 5%
- Consulting: 6%
- Engineering & Manufacturing: 10%

*Others include Logistics, FMCG, Energy, Chemicals, Telecom

Source: Colliers International
Since 2014, with about 1.0 million employees working in over 1,250 centers, GICs in India have increasingly been undertaking high-end work like product engineering and innovation, that are critical to their organizations’ success. As of 2019, India is the undisputed leader in the GIC market led by a change in strategy among multi-national companies (MNCs), further aided by competitively affordable rents in certain markets (that offer sub-dollar per sq foot per month rentals), a strong IT infrastructure, tax breaks and a highly skilled, english-speaking talent pool.

Colliers International foresees robust demand from GICs, with leasing by GICs across six major cities in India to be in the range of 32.5 million sq feet (3.0 million sq meters) between 2019 and 2021.

Over 2014-2018, occupiers leased about 53.0 million sq feet (4.9 million sq meters) of office space in multi-tenanted buildings for their GICs. Bengaluru led the demand with about 20.1 million sq feet (1.9 million sq meters), followed by Delhi NCR and Hyderabad. Further, we found that companies from the engineering, energy and manufacturing sectors favoured Bengaluru, which accounted for 32.0% of GIC demand between 2014-2018.

While Bengaluru should likely remain the first choice for GICs, we recommend occupiers consider Hyderabad, led by its ease of doing business, talent pool and quality upcoming supply.

We recommend the Banking, Financial services and Insurance (BFSI) sector to consider Pune for its GICs on account of cost efficiencies and talent pool. Mumbai and Delhi NCR should see further growth from energy, technology and electronics firms.
WHAT DO OCCUPIERS WANT?

CRE objectives have undergone a tectonic shift over the decade and as a result commercial office spaces continue to evolve. In order to understand how CRE occupiers make decisions, in August 2019, Colliers solicited responses from more than 50 occupiers across major cities in India. Interestingly, the survey revealed that almost 50.0% of CRE executives still face challenges in leasing quality space. The survey also revealed that an employee friendly environment is one of the most important factors, with 76.0% of CRE executives considering it to be the most important factor after cost management.

The nature of workspaces, such as collaborative and agile spaces, wellness, and diversity and inclusion among the workforce play an integral part of employee success that reflect in business results. A study on workplace inclusion and diversity²⁰ reveals a strong correlation between diversity and better corporate performance. Experts agree that workplace diversity translates into significant benefits for businesses. Decision making, return on investment, entry into new markets, and innovation all improve when minorities are represented in a company’s workforce²¹. Colliers survey also revealed similar results with 33.0% of occupiers considering diversity and inclusion to be very important to their workplace strategy. Ergonomics and collaborative spaces were given high importance with 62.0% and 48.0% of occupiers, respectively, rating it to be very important to consider while drafting their CRE strategy.

²⁰ “Take Action, Gain Traction: Inclusion and Diversity in the UK Workplace” prepared by the consulting firm Bain & Company
01. **CRE objectives undergoing a shift**
Employee friendly environment is the focus while managing costs

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<td>Sustainability</td>
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<td>Connectivity</td>
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02. **Challenges faced by CREs**

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<td>Getting quality office</td>
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<tr>
<td>Economic/Political uncertainty</td>
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## Important workplace aspects driving office space design

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<thead>
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<th>Aspect</th>
<th>Most important</th>
<th>Somewhat important</th>
<th>Less important</th>
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<td>Collaborative spaces</td>
<td>48%</td>
<td>38%</td>
<td>14%</td>
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<tr>
<td>Ergonomic fixtures &amp; fittings</td>
<td>62%</td>
<td>28%</td>
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<tr>
<td>Environment controlled space</td>
<td>43%</td>
<td>57%</td>
<td>-</td>
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<tr>
<td>Facilities management</td>
<td>48%</td>
<td>48%</td>
<td>4%</td>
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<tr>
<td>Diversity &amp; Inclusion</td>
<td>33%</td>
<td>57%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Colliers International
WHAT’S THE NEXT GAMECHANGER IN CRE?

**Telecom 5G**

5G technology should bring newer opportunities, sophistication and an enhanced user experience across the spectrum. With respect to commercial real estate, we believe that the arrival of 5th generation of wireless devices should have a transformative effect. In CRE, we believe that foremost, 5G should enhance capabilities of Internet of Things (IoT) and make buildings better connected, leading to a more robust digital infrastructure. We believe that landlords need to recognise that 5G can benefit their buildings by enabling better connectivity, which could improve the valuation of their buildings.

While 5G may roll out in India by 2020-21, we believe that occupiers are likely to increasingly favour connectivity over location, once the new technology is firmly entrenched. In fact, occupiers in London have ranked connectivity higher in the priority than location, as they are ready to pay additional 5.0% for the property with strong connectivity.

The advent of 5G should also have alterations to occupier strategies as highlighted on the right:

- **The sector may become more tech savvy as the leasing teams may conduct virtual inspections for clients, investors may be comfortable doing surveys through drones and blockchains of property may be widespread.**

- **In addition to the usability and experience, we expect monetising of commercial or residential assets to install 5G cell towers.**

- **Telecom companies may generate a short term spurt in demand as these companies need to be closer to end users and require teams to implement and adopt to new technology that should drive demand for office space.**
We view India’s vision to adopt electric vehicle (EV) mobility over the next 5-10 years to have a positive impact in not only reducing carbon emissions, but also to enable changes to infrastructure and the real estate sector. However, we note that to enable the transition from conventional fueled vehicles to electric vehicles, the government needs to invest in regulations and standards along with developing the relevant infrastructure including charging stations, solar power and upgrading the electric grid. The recent guidelines issued by the Ministry for Housing and Urban Affairs states that developers must reserve 20.0% of parking spaces in commercial and residential complexes for EV charging infrastructure, there shall be one charging station for every three-square kilometer grid and one charging station on each side of highways at 25 kilometers (15.3 miles) intervals.

As a result of the regulations, we expect retrofitting of properties over the next decade. We believe that retrofitting for charging stations must require an initial investment by the developer or owner, resulting in a rental and common area maintenance (CAM) fee increase of about 5.0%-7.5% over the next three years. Therefore, in view of the regulations, we can expect a rise in capital expenditure on the developer’s end and operational expenditures by occupiers over the next three years.

Also, a transition to electric mobility should lead to CRE demand driven by the engineering sector like Original Equipment Manufacturers (OEM), data centres and the battery industry. With notable cost savings during commuting, we also predict a rise in demand of suburban properties. This decentralisation is likely to result in development of multiple ancillary notable business districts in the vicinity of existing business districts, providing an impetus to CRE with electric mobility infrastructure. In our opinion, developers should take advantage of present requirements, investing in relevant electric mobility infrastructure early to future-proof their investments. Early adoption of electric mobility should help the developers remain ahead of the game and ensure market leadership.
The CRE sector has seen major alterations in workplace, first with the advent of the computer, second the growth of the internet. The next change is on the anvil with offices being redefined with the rise of technology and Gen Z. The Gen Z (born between 1995 - 2010) population in India should touch 472 million by the end of 2019, representing 36.0% of the total population. Interestingly, population growth of Gen Z is on the path to overtake the millennials soon.

As a younger workforce enters the job market and as technology evolves, the Indian workplace is transforming into a collaborative and creative environment. The following aspects are being quickly adopted with a changing consumer profile.

Colliers notes that occupiers are providing an experiential workplace for employees, providing Gen Z with a unique and lasting experience. According to the employee experience index study Facebook is the top firm among 252 organisations providing the best employee experience, beating tech giants such as Google and Apple on the parameters of physical space and culture. This was made possible by Facebook conducting internal polls asking its employees what they would want from an office space. The outcome is an agile work environment with increased collaboration among coworkers, easier communication, and an increase in idea cross-pollination.

Firms are increasingly dedicating managers to look after the experiential attributes of the workspace. Furthermore, firms believe that good design leads to happy workforce which subsequently boost productivity.

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23 https://www.livemint.com/Politics/uP1RGLG2uiSX6Ei8BNM9jJ/Gen-Z-is-on-course-to-outnumber-millennials-within-a-year.html
24 https://thefutureorganization.com/employee-experience-index/
26 https://abs.com/how-good-office-design-can-improve-productivity/
A compassionate work force

Diversity and inclusion are playing an increasingly important role in attracting and retaining talent. Companies in India are becoming more aware of the importance of diversity of the success of their bottom line. India Inc. is looking to increase the participation of the lesbian, gay, bisexual, and transgender (LGBTQ) workforce as marginalization and discrimination shrinks the existing talent pool, restrict markets and slow down economic growth.\(^\text{26}\)

Wellness is the next forefront for change

Companies are looking to improve the work life balance of the employees who spend a significant part of the day in office. To enhance work life balance, smartly designed office spaces can lower attrition, absenteeism, boost productivity and improve creativity. Wellness spaces may be in the form of recharge rooms where employees can take a few minutes of downtime to zone out, relax, do yoga, zumba and stretch, or take a nap in sleeping pods or even meditate. One such example is Airbus’ office in Bengaluru, which introduced balance for business teams at the global level that were tasked with finding ways to improve work-life balance.

To maximize employee wellness, occupiers and developers around the world are recognizing the importance and value of next generation office space.

We note that innovative design, a seamless assimilation of technology, and wellness facilities for employees are being implemented to drive loyalty and employee satisfaction. Colliers believes that companies are investing time and resources to understand how to retain and attract fresh talent.

Landlords are adopting new building technologies and design features such as double-height windows and exterior glazing that allow in natural light while incorporating green spaces, which research shows helps enhance employee health while lowering energy bills. Features such as stairways in the middle of the office can also help attract larger tenants who prefer the flexibility of expanding into multiple levels in a building and want to encourage people to move more throughout the day – a key principle of achieving wellness. Colliers research demonstrates that these features are at the forefront of workplace conversations, as air quality, natural light and recreational space are all key drivers of relocation decisions in markets such as Hong Kong.

Once wellness infrastructure or initiatives are in place, companies are keen to measure them. While the push for wellness is growing thanks to positive linkages to profitability, employee satisfaction and productivity, the direct benefits to businesses have often been difficult to quantify. The good news is that there are a growing number of tools – such as real-time indoor air quality monitors, mobile platforms, and scientifically designed guidelines, checklists and scorecards – that enable the more effective assessment of programmes and their impact on corporate bottom lines over time.
Figure 9: A six-step path to wellness success

A SIX-STEP PATH TO WELLNESS SUCCESS

1. Define a baseline

2. Set targets, define a budget and acquire management buy-in

3. Create a cross-functional wellness committee

4. Identify key technologies that can support the strategy across space, organisation and individual

5. Communicate – use technology to promote and measure benefits

6. Evaluate performance by analysing metrics and continuously soliciting feedback

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