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Co-working office space segment crosses 1m sq ft mark

Co-working spaces model's capital-light structure is gaining momentum and attracting investments

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WITH CO-WORKING UNITS on the rise, led by start-up companies that are rapidly turning to flexible, efficient work spaces where both space and costs can be shared, chances are high that the person sitting across your desk is not working for the same company as you do.

Tailor made for small businesses, co-working spaces offers an office environment, with all amenities for a cost per hour or per day. Just in the past one year, co-working spaces have gained so much popularity that total space take up by this segment has crossed over a million sq. ft, according to international property consulting firm, Colliers International. Accordingly, leading real estate companies like DLF, the Vatika Group, Bharti Realty, Supertech, RMZ and Embassy Developers allotted part of their commercial portfolio to co-working office blocks. Private Equity (PE) fund, US based venture capital firm, Sequoia Capital invested in one of the first domestic co working space operator, Awfis. And it is believed that KKR, TPG and Goldman Sachs are scouting for a \$100 million deal.



ILLUSTRATION: SHYAM

At a time when the economic environment has driven large sized companies to drastic cost cutting measures across sectors, experts said, this capital light structure is gaining momentum and attracting investments. "Although still at a nascent stage, it is a new service model that has found with PE funds and companies are ex-

cited to bankroll with either seed funding or growth capital," said Raja Lahiri, partner at Grant Thornton.

Other than Awfis, Coworks, Indiqube, Skootr, InstaOffice, Wework, Smartworks and iKeava are among major operators that are renting real estate in Mumbai, Bengaluru and Delhi-NCR. "Co-

working operators alleviates start-ups from incurring a hefty capex, which is relevant at the moment," said Shobhit Agarwal, managing director of capital markets, JLL, India.

These are companies that don't necessarily need a front office identity and therefore it is needless to spend on costs that arise from ex-

penditure such as common area maintenance and overhead costs, Agarwal added. A scrutiny of the Wework website reveals, the company charges almost ₹6,000 to ₹6,500 a seat a month and ₹15,000 for a cabin. This is 20%-25% cheaper than one would have to spend in an office in comparable locations, even if the opportunity cost associated with it is not considered, according to Juggy Marwaha, Lead at WeWork India. In turn, co working operators are signing long term leases, between 10 and 20 years, with a five year lock in period with real estate companies, which translates to a rental discount of 7% to 10% for them and gives developers a long term client. Ultimately, these companies work like hotels; their success rates will depend upon their occupancy numbers, Agarwal said.

Coworking is a global trend. According to international property consulting firm, Cushman and Wakefield, last year, co working space in Asia accounted for five million sq. ft. Coworking supply has doubled in Washington DC in the last 5 years. One-third of coworking space in the UK is in London, which grew 16% in 2016 and WeWork is now the largest occupier of corporate real estate space in New York City and plans to now grow heavily throughout Asia.

Colliers International said coworking operators could be leasing 8 to 9 million sq. ft of space in the next three years, which is an aggressive estimate; it means the expansion can grow so rapidly that it can equal the absorption rate of Bengaluru, which is the largest market for commercial take up in the country at the moment.