

India - March 2020

Q
SPOTLIGHT
Savills Research

COVID-19: Transforming Workplaces

(Volume 2)



Volume 1 discussed global event-correlations, impact on economy, indications in stock markets, sector-specific sensitivities in India, etc.

Volume 2 focuses on

- The probable intensity of impact and likely scenarios for workspaces
- The re-calibrations in commercial spaces
- A conjecture on ‘fast-forwarding’ of an otherwise distant future!

COVID-19 Will Infect Office Markets (But... The Shape Of Rebound Will Matter!)

Volume 1 showed how GFC created a massive dip, before markets recovered in varying curves.

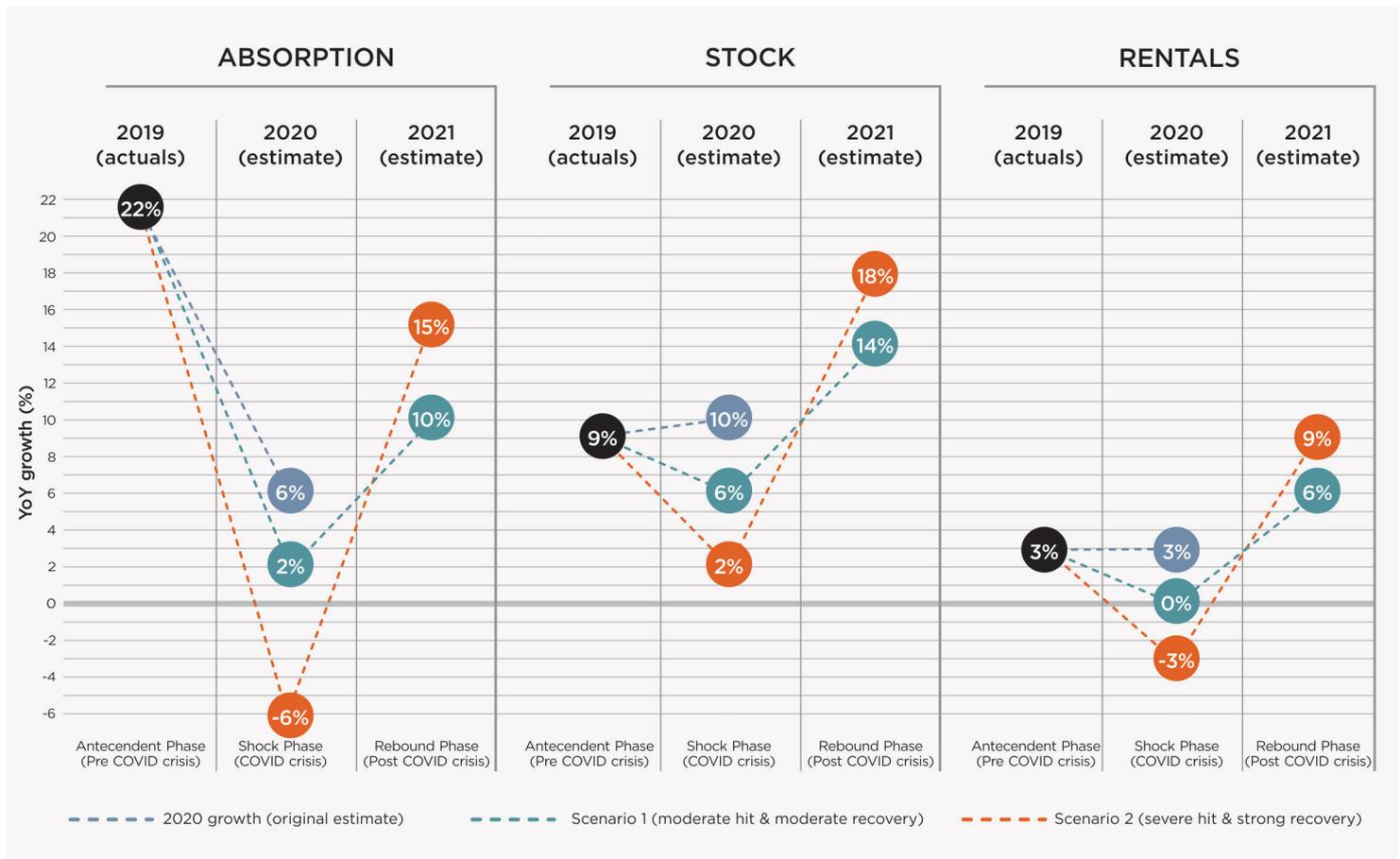
HBR (<https://hbr.org/2020/03/understanding-the-economic-shock-of-coronavirus>) explains that economic shocks could precipitate following aftermaths.

- **V-shaped:** Strong rebound post-crisis (Canada post GFC)
- **U-shaped:** Slow rebound post-crisis (USA post GFC)
- **L-shaped:** Previous peak not recovered (Greece post GFC)

FOR INDIA'S OFFICE MARKETS:

- Absorption growth is expected to be moderate from 22% (2018-19) to 6% (2019-20) (Ref: [Market Watch YE 2019](#)). **COVID might cause deceleration, if prolonged.**
- However, since the crisis is bio-sociological, with recovery based on scientific-solutioning, we **expect the rebound to be a strong V.**
- **12-24 Months:** SHOCK could be Moderate to Severe. Similarly, the REBOUND could be Moderate to Strong (estimated % shown).

We advocate careful observations, without taking conclusive positions currently.



This graph is based on initial estimates and is for representation purposes only. Actual numbers may vary depending on several factors.

COVID-19: Workspaces in Impact Zone (Commercial Real Estate in Partial Re-Programme Mode)

GLOBAL & DOMESTIC FACT SHEET

Work across the world, with some small exceptions, is happening from homes, albeit in somewhat compromised mode.

COVID-19 has already evoked BCP measures on a scale, we were not accustomed to.

While 'non-essential' service sector offices are completely vacated, the government offices are operating at significantly lower capacities.

International Labour Organisation (ILO), estimates job losses to run over 25 million as a result of COVID-19.

EMERGING LANDSCAPE: CALIBRATED RESETS & FORWARD PATHS

- Fresh office supply in temporary pause, as construction activity on hold in nation-wide halt
- Office space leasing likely to slow down in Q2-Q3 2020 due to tenants reprogramming their space needs. (refer previous figure)
- Landlords and Tenants working in partnership to ensure critical operations are maintained
- Landlords would be keen to meet their fiduciary commitments to their bankers and avoid defaults
- Landlords taking steps to reduce energy consumption and variable costs



PROBABLE TRICKLE DOWN EFFECTS

- The cushion at which loans were procured are of paramount importance and can play a role
- A possible relook at conventional space, flexi space and BCP metrics - in case of a prolonged scenario
- Tangible relief for commercial space developers from regulators and financial institutions



Shared Spaces: Vulnerable, BUT, In Fine Balance!

Flexi Spaces: Look For Flexi-Opportunities Despite Early Hits



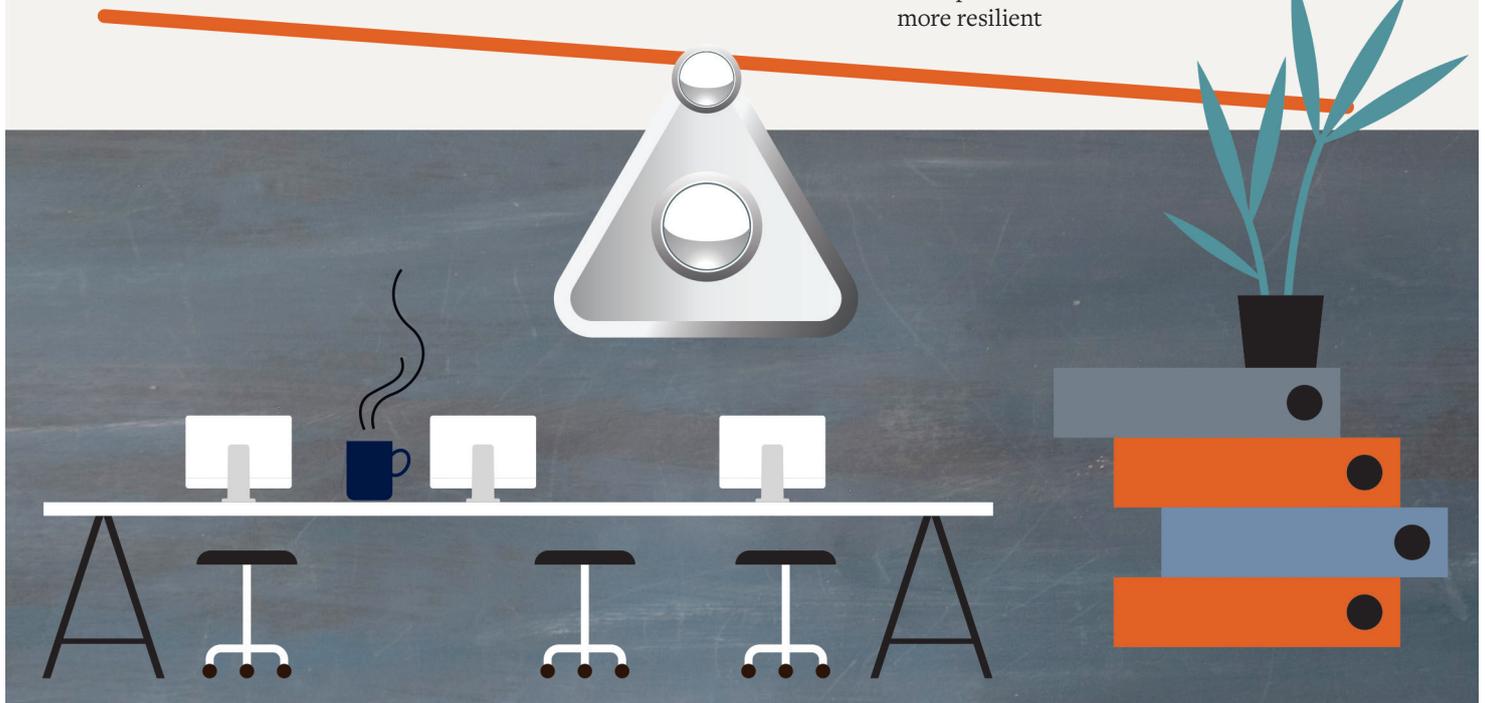
Genesis of Vulnerability*

- Physical and Social Distancing is contrary to the basic concept
- Smaller occupancies begin vacating rapidly, as it is easier to terminate rental agreements
- 40% reported shortfalls & drops in enquiries
- Cash & liquidity are vital to survival: High risk for providers with large exposures to leases (over management agreements) and rolling monthly contracts
- Also, difficulties may be greater for loss making business model heading into this period



Emerging Crisis Management Strategies*

- Robust providers who own assets and have financial backing are well placed to ride the wave
- Some may seek to re-align terms of their portfolio
- Also, survival is linked to working closely with landlords as well as clients
- Planning for new opportunities: potential swing spaces, post-crisis, for delays in real estate creation
- It remains a strong alternative to Work-From-Home.
- Enterprise-based business model will become more resilient



* These are based on our enquiries from internal sources regarding crisis management plans of CoWorking operators

A Glimpse Into the Next!

COVID-19: FAST-FORWARDING A DISTANT FUTURE?

- A small part of physical (traditional) office space may make way for virtual workspaces during this decade itself, as forced learnings from COVID-19 uncover new realities.
- Work-From-Home is too nascent today – and may never replace offices completely, but the upcoming tech-boom will enable it further.

- The current decade is bound to witness accelerated remote working, since
 - **Virtualisation** of teams, conferencing and meetings is already advancing
 - **BYOD**, in select and viable businesses, is gaining traction
 - Companies are moving in to robust **ANYTIME & ANYWHERE CONNECTIVITY**
 - **HR policies** are gearing for work in singular or cluster modes, including remote and virtual hiring
 - **IT infra support** is creating extensions at all points

PROBABLE-IMPROBABLE SPECTRUM

- **WFH to Replace Offices:** IMPROBABLE since human interface remains vital
- **Will COVID-19 even out locational choices with tech empowering:** PROBABLE

Will post pandemic world want more digital and less physical workplace?

Veiled Future:

An emphatic YES (69%) for a **more Digital workplace** vis-à-vis a Physical workplace is revealed by our live poll at the height of global COVID-19 combat, and through the ongoing lockdown in India and many countries.



Afterword

COVID-19 is testing humankind in novel ways, despite its past experiences with calamities.

Unknowingly though, our response to the COVID-19 phenomenon may have begun creating

the ground for far-reaching changes; particularly in the workplace arena.

We touched upon some of those evolutionary concepts in our white paper titled Fixed to Flexible in February-2020, just before the crisis hit the globe with full force.

Do revisit that paper. COVID-19 seems to be forcing an evolution on us.

Fixed to Flexible:
Mapping the Workplace & its Transformations



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