

Demand analysis and office space capacity utilization of corporates in Chennai

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Abstract: Office space requirement is the inevitable part of the corporate that takes place at the time of expanding their business. Office space plays a vital role in making business among corporate. Corporate demand for office space is constantly increasing from the past few years. The requirement of space for corporate in the next few years will be greater than several lakh. Every organization have requirement for space to their capacity. Demand for space by corporate in Chennai. The commercial real estate market is in consistent demand. A majority of the available supply was required for IT/ITES office space, concentrated in areas such as OMR, Ambattur and GST Road. Chennai has been attracting investments from several industries due to its strategic location and better infrastructure. The influx of people from various parts of the country on job opportunities has been more than ever. This has increased the demand for office space in return. Hence the extra space provides a convenient option to expand and hire more workers without the need to move. No company ever seems to have the right amount of office space. Firms grow and shrink throughout the years for many reasons. Hence the needs for space demand has to be analyzed by corporate in order to have an appropriate accommodation as far as corporate are considered. The objective of the study is to define and implement a process to measure space capacity and utilization of Corporate in Chennai and to identify oversubscribed or in-demand space and to develop and implement an on-going instructional space utilization monitoring process. Data has been collected from various organizations in Chennai for the study. The research type is practical. The sampling frame unit taken is Chennai. The sampling method adopted for collection of Information is Simple Random sampling. The data is analyzed with the SPSS Package and the tools used for analysis are chi-square, correlation, etc. Descriptive method is used for elucidation. The sample size taken for the study is 75. The major finding is that the majority of the corporate are from IT. It is found that there is a significant relationship between nature of business and the average space requirement of corporate. Majority of the corporate stated office space are sourced through property consultant and direct. The average space requirement of every corporate in Chennai is 35000 Sq.ft. For future expansion corporate can go with either traditional lease or serviced office rather than acquiring freehold space since it incurs the major cost to the expansion of the business. Thus the corporate in Chennai have a vast demand for space in the next few .As the lease period nears, the amount of space leased and the number of workers in the space generally changes, resulting in increased space per worker.

Keywords: Space utilization, Corporates.

INTRODUCTION

Chennai is regarded as both the commercial and cultural capital of South India. The city is fast transforming into one of the most sought after destinations by foreign investors looking to make substantial presence in India real estate.

RECENT TRENDS OF CORPORATE SPACE REQUIREMENTS IN CHENNAI

Chennai is regarded as both the commercial and cultural capital of South India. The city is fast transforming into one of the most sought after destinations by foreign investors looking to make substantial presence in India real estate. Today, the property market is looked upon as the only tool that can generate immense wealth and new value. And Chennai real estate is no exception to this belief. The city famous for its vast coastline stands at advantage from different aspects. When comparing its cost of living with its counterparts like Delhi, Mumbai, and Bangalore, Chennai still offers the lowest. As a home to several multinational companies, Chennai witnesses an unparalleled growth in the commercial real estate sector. The booming IT and ITes and the BPO industry of Chennai have played a crucial role in altering the commercial real estate set-up of the city and prepared it to cater to demanding needs of the business market. Staying in step with the development of commercial sector, Chennai residential market is also equally poised to give a strong boost

to its real estate sector. The emerging trend here is that of large projects with several blocks of apartments offering an array of amenities like swimming pool, gymnasium, club house etc. With Chennai real estate witnessing appreciation at a fast rate, property investment in the city is worth the idea. To help you further develop your ideas into successful deals, we provide you with the data to assist you in reviewing all the potential areas for your precious investments in Chennai's property market.

HOW MUCH SPACE DOES CORPORATES NEED?

No company ever seems to have the right amount of office space. Firms grow and shrink throughout the years for many reasons; however, they must contract for space over a set lease term of five, 15, or even 20 years. Typically this situation results in about 20 percent to 25 percent more space per worker than the stated goals of space planners. So firms with a goal of 200 square feet per worker will likely end up closer to 250 sf per worker. Yet, in last year's Core Net Global survey, corporate executives indicated they expect to reduce the amount of space they lease in the next five years to less than 100 sf of dedicated space per worker. Since the current average rentable building area in the U.S. is about 300 sf per worker, does this mean we have three times as much office space as needed?

Current Space Trends

Looking at square feet per worker on new leases, the U.S. national average in late 2012 was 185 sf per worker, according to Co Star lease data. This number reflects new leases in major markets and a fairly tight economic environment. Company executives do not want to lease too much excess space even though they may find current rental rates are attractive. Comparing utilized space by industry reveals consistent differences that are reflective of an industry's compensation level and need for work space. As of 2013, on leases close to expiration, the average space per worker is often double the estimate for new leases. This makes sense, since companies can't downsize until leases expire. In soft economies we expect a fair amount of shadow space that is leased but not occupied. Since labor costs matter much more than occupancy costs, most tenants are able to honor their leases until they expire, so they pay for more space than they actually need. The extra space also provides a convenient option to expand and hire more workers without the need to move. So we expect to observe significant extra space in weaker economies, when rents seem to be bargains.

Future Space Needs

A survey conducted by the author suggests that everyone wants to use less space. Large firms, representing about a third of all office space users, have increasingly moved toward more-standardized shared, or non dedicated, office space. Based on input from Core Net Global members and CBRE tenants, tenants with footprints greater than 75,000 sf are working harder to use space more efficiently. This group tends to encourage digital storage on centralized cloud-based servers and use non dedicated standardized space for all but the most senior of managers. This group represents 1.8 percent of all U.S. tenants by count and 27.9 percent of all office space. Those using more than 50,000 sf represent 36 percent of the total office stock. If, using some of the space-sharing strategies described above, 36 percent of the firms reduce their primary leased office footprint by 50 percent, moving from 250 sf to 125 sf, this would be the equivalent of 540 million sf out of some 12.25 billion office sf as of 2013. Historically this is equivalent to 3.6 years of average U.S. deliveries of net new office space to the market, which has averaged close to 150 million sf per year since 1983. At the same time we recognize that little space has been added from 2009 through 2012 and the office stock has actually shrunk due to increasing obsolescence. Absorption has been positive for the two years prior to the end of 2012. Looking at the global market, office space per worker is much less in Europe and Asia than in the U.S., suggesting some of U.S. demand is culturally based. Thus, as the U.S. companies are influenced by companies and employees from other countries, office configurations and work space allocations per worker may change. In addition, the increasing mobility of U.S. office workers who may work full or part-time from other locations, is causing companies to reconsider the need for dedicated office space for every employee. Companies are also increasing the proportion of collaboration and team space in offices, along with more space devoted to amenities. These flexible spaces are offsetting some of the square footage lost to smaller dedicated work spaces. We are also witnessing an increasing trend toward greener office space with more natural light, better natural ventilation, and better temperature controls, all of which may add to the comfort and productivity of office workers. Over a longer term, the average size of space leased has fallen by 21 percent during the past 10 years, according to a Property Portfolio Research September 2012 report. PPR also notes that green, transit-friendly space is increasingly in demand, suggesting that much of the existing space is obsolete and needs retrofitting. Those buildings that are able to bring in more natural light without extraordinary costs seem to offer the best opportunities for retrofitting.

Office Space Per Worker

Decreases in total office consumption based on more-flexible work location patterns and higher utilization rates are underway, but they take time. The total demand for space will grow at a slower pace for the next few decades, as firms decrease space allocated per employee, but there will be substantial demand for better interiors more adapted to the newer style of working. Over the next several years we will likely see a large spread in the space required per worker from the most efficient space users to traditional space users, so estimating the average sf per worker will be a challenge. The most reasonable estimates presume a continual but slow reduction in space per worker. For now, 200 sf to 250 sf per worker is still a reasonable estimate for most traditional firms, but at the same time, 100 to 150 sf is closer to what some of the larger public firms are now achieving. Moving forward, we will see some firms achieve less than 100 sf per worker, but given the cultural impediments and the challenges of predicting growth rates, we are more likely to see figures average 150 sf to 185 sf per worker phasing slowly toward even lower figures at the end of the decade. This is a significant reduction in space per worker, but it parallels a need to retrofit much of the existing space to provide more collaborative team space and healthier, more productive environments. At the end of the day, landlords are not selling space but rather productivity. More productive environments with better natural light, temperature and air controls, cleaner air and controllable noise are more productive and will command rental premiums.

REVIEW OF LITERATURE

G. Martin Wagner September 30, 1997, The workplace is changing, and evaluating space use is more complex as a result. The Office of Management and Budget (OMB) asked our office to develop "utilization standards for various uses of building space, such as office space, storage, laboratory space, etc." Mundie & Associates 1999-2000, This report provides an update of the market analysis conducted for the City of East Palo Alto in 1999-2000. Ting Kien Hwa 2003. Corporate real estate constitutes a large percentage of fixed assets of a firm. Department of Capital Planning and Space Management March 2003, Space is a precious and finite resource at most academic institutions and Stanford is no exception. Dietmar Sperling 2005, Many corporate groups want to reduce the amount of capital which is tied up in real estate. Grant Thornton June 2006, This study concludes that 2,000 extra ("net") rooms will be required per annum over the period to 2026. To meet this target, a total of around 2,500 new ("gross") hotel rooms will be required each year, as we also expect a loss of 500 rooms each year.

Promoting space efficiency in building design March 2006, The aims were to identify which aspects of building design contribute most to optimum space efficiency, and to produce good practice for establishing space efficiency within higher education institutions when embarking on building projects. The firm's most valuable workers, the attorneys, appear to be most satisfied. Specialized spaces (Kathy O. Roper, Jeffrey L. Beard, (2006) "Justifying sustainable buildings – championing green operations", Journal of Corporate Real Estate, Found that the organizations that adopt environmental responsibility and then take action are capable of building more secure and prosperous positions within the global economy.

METHODOLOGY

Employees (Facility, Operational, Administration) belonging to the various Organizations in Chennai constituted the respondents of the study. Chi-square, correlation, etc are the tools that are used for analyzing the data. Descriptive method is used for elucidation. The sampling method adopted for collection of Information is Simple Random sampling. The primary data is collected with a proper questionnaire. The tools used for data collection are primary data. In this study, the data is analyzed with the SPSS Package such as graphical. The research type is practical. The sampling frame unit taken is Chennai. The sample size taken for the study is 75.

STATEMENT OF THE PROBLEM

Compared to other Indian cities, there's a lot of scope for growth in Chennai's commercial market. This is because the demand is still increasing. It has been observed that commercial prices in the CBD (Central Business District) area, which consists of prime locations like Nungambakkam, Egmore, Mylapore, Guindy and Ambattur, are consistently increasing, while new projects being developed in the suburbs are selling out instantly due to the location and price factor. With the development of world class infrastructure, better commuting facilities and integrated townships, people are willing to shift to the suburbs, thereby expanding the boundaries of our metro.

There is a very healthy demand in both primary and secondary markets, since supply is scarce owing to the lack of land

within the city. Lack of supply is causing both end-users and investors to take a closer look at suburbs. Apart from this, another advantage of corporates along OMR is the new floor space index (FSI) that permits a greater population density. Real estate

Statistical Tools Applied For Analysis

The techniques used for analysis are percentage analysis, Chi-Square test and rank correlation.

ANALYSIS AND INTERPRETATION

Demographic Characteristics

53.33% of the respondents are from IT, Technology, 17.33% of the respondents are from Manufacturing and 10.67% are from financial services, 14.67% respondents are from logistics & transportation and at the least 4% of the respondents are from BPO.49.33% of the corporates requires 60 – 80 sq.ft for an individual employee as a working space and 40% of the corporates require 80 – 100 sq.ft for an individual employee and 6.66% of the corporates require 100 – 120 sq.ft for employee’s work space,2.26% of the corporates requires more than 140sq.ft as working area for employees in the organization.25.33% of the corporate accommodate 10000 – 25000 Sq.ft for their office space and 8% of the corporate accommodate 25000 – 50000 Sq.ft for their office space, 33.33% of the corporate accommodate 50000-100000 square feet as their office space and 32% of the corporate accommodate above 100000 Sq.ft as their office space.2.7% of the corporate office space lease is expiring by the year 2014 and 21.33% of the corporate office space lease is expiring by the year 2015, 17.33% of the corporate office space lease is expiring by the year 2016 and 26.66% of the corporate office space lease is expiring by the year 2018. The lease is not applicable to 16% of the corporate as they are rental and owned.

Objective 1: To develop criteria to identify and evaluate patterns of space utilization

S NO	PARTICULARS	NO OF RESPONDENTS	PERCENTAGE
1	Underutilized	8	10.66
2	Optimally Utilized	55	73.33
3	Over Utilized	12	16
	Total	75	100

Table 1.Type of space utilization

From the above table it is inferred that 10.66% of the corporate space is underutilized and 73.33% of the corporate is optimally utilized and 16% of the corporate space is over utilized. Hence majority of the corporates in Chennai are optimally utilized and this reveals that utilization of space planned properly that fits the man power, furniture and the equipments that they use for their functions.

Objective 2: To identify the total area of office space of the corporate

S NO	PARTICULARS	NO OF RESPONDENTS	PERCENTAGE
1	10000 - 25000	19	25.33
2	25000 - 50000	6	8
3	50000 - 100000	25	33.33
4	100000 & above	24	32
	Total	75	100

Table 2.Total office space of corporate

From the above table it is inferred that 25.33% of the corporate accommodate 10000 – 25000 Sq.ft for their office space and 8% of the corporate accommodate 25000 – 50000 Sq.ft for their office space, 33.33% of the corporate accommodate

50000-100000 square feet as their office space and 32% of the corporate accommodate above 100000 Sq.ft as their office space.

Objective 3: To analyze the considerations in selecting additional office space of corporates

SNO	PARTICULARS	NO OF RESPONDENTS	PERCENTAGE
1	Acquiring freehold space	24	32
2	Traditional Lease	42	56
3	Serviced Office / Business Centre	6	8
4	Others	3	4
	Total	75	100

Table 3: Considerations in selecting additional office space

From the above table it is inferred that 32% of the corporate is expecting to acquire free hold space and 56% of the corporate prepared to have traditional lease for their future expansion, 8% of the corporate is willing to go with serviced office/business centre and 4% of the corporate have mentioned some other options.

Objective 4: To analyze corporate’s requirement of space for future demand

SNO	PARTICULARS	NO OF RESPONDENTS	PERCENTAGE
1	15000 - 30000	25	33.33
2	30000 - 45000	12	16
3	45000 - 60000	8	10.66
4	60000 - 75000	4	5.33
5	75000 & above	15	20
6	None	11	14.66
	Total	75	100

Table 4. Requirement of space for future demand

From the above table it is inferred that 33.33% of the corporates require 15000

– 30000 sq.ft for future demand and 16% of the corporates require 30000 – 45000 sq.ft for their future expansion, 10.66% of the corporates have demand for 45000 – 60000 sq.ft for future expansion and 5.3% of the corporates have demand for 60000 – 75000 sq.ft for their expansion.14.66% of the corporates do not have requirement of space for expanding their business

CHI – SQUARE

Chi-square is used in this study to analyse the difference between observed and expected frequencies objectively as it is practically impossible to tell the difference just by looking at the data

S.NO	VARIABLES	CHI - SQUARE	SIGNIFICANCE	DF	RESULT
1	Nature of Business and average space requirement	17.234	0.371	16	REJECTED

Table 5: Nature of Business and average space requirement

H₀ - There is no significant relationship between nature of business and average space requirement.

H₁ - There is significant relationship between nature of business and average space requirement.

As the calculated value (17.234) is greater than the table value (7.962) at degree of freedom 12, hence the null hypothesis is rejected. Therefore from the above table it is inferred that there is a significant relationship between Nature of Business and average space requirement.

CORRELATION

S.NO	COMPONENT	P VALUE	RESULT
1	Area of office space and Type of space Utilization	0.262	NEGATIVELY CORRELATED

Table 6. Area of office space and Type of space utilization

From the above table it is found that there exist a negative correlation between area of office space and type of space utilization. Hence there is no relationship between area of office space and the type of space utilization

S.NO	COMPONENT	P VALUE	RESULT
1	Additional office space and requirement of space	0.270	NEGATIVELY CORRELATED

Table 7. Additional office space and requirement of space

From the above table it is found that there exist a Negative correlation between Additional office space and Requirement of space. Hence there is no relationship between additional office space and requirement of space.

FINDINGS

From the study it is revealed that 53.33% of the respondents are from IT, Technology.17.33% of the respondents are from Manufacturing and 10.67% are from financial services, 14.67% respondents are from logistics & transportation and at the least 4% of the respondents are from BPO. The least category company falls under BPO and financial services. For an Individual Employee majority of companies i.e., 37% of the corporates prefer 60 to 80 square feet space and 30% of the corporates require 80 – 100 sq.ft.Majority of the offices i.e., 33% of the corporates have total area space of 50000 to 100000 square feet. Majority of the respondents i.e.,42.66% corporates stated that the office space are sourced through property consultant and 23% corporates stated that the office space are sourced through direct. In order to get additional office space corporates in Chennai i.e.,56% of the corporates prefer to adopt traditional lease and 32% of the corporates prefer to go with serviced office. Majority of the companies i.e.,34.66% of the corporates individually stated that their expansion would be less than ten and 10 – 20.The required space for future expansion of the corporates in Chennai is around 22lakhs square feet.

RECOMMENDATIONS

As there are major space requirements as for as Chennai corporate are considered, corporate can opt for additional space in order to expand their business premises. For future expansion corporate can go with either traditional lease or serviced office rather than acquiring freehold space since it incurs the major cost to the expansion of the business. No company ever seems to have the right amount of office space. Firms grow and shrink throughout the years for many reasons. Hence the needs for space demand has to be analyzed by corporate in order to have an appropriate accommodation as far as corporate are considered.

CONCLUSION

Thus the corporate in Chennai have a vast demand for space in the next few years there would increase in the employment opportunity. Apart from the companies' higher space utilization rates, there are still factors that are affecting the future office space demand. The lack of new construction inhibits space use efficiency. But as the lease period nears, the amount of space leased and the number of workers in the space generally changes, resulting in increased space per worker. As a result companies get into the plan of expanding since they have inadequate space and some other commitment. As second-generation tenants replace first-generation tenants, it is often more difficult to use the space as efficiently. This is generally the case for most small firms that cannot, on their own, drive new supply in the market.

