
CO-WORKING SPACES: A DISRUPTIVE FORCE IN COMMERCIAL REAL ESTATE

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ABSTRACT

Co-working spaces have emerged as a transformative force in the commercial real estate sector, driven by their flexibility, cost efficiency, and collaborative opportunities. This paper explores the impact of co-working spaces on the Indian real estate market, highlighting Maharashtra as a focal point due to its robust land laws and urban development policies. The study examines key regulatory frameworks, including zoning laws, lease agreements, and the Real Estate (Regulation and Development) Act (RERA), alongside challenges such as urban land scarcity and high operational costs. It also emphasizes the role of digitized land records, sustainability compliance, and the integration of co-working hubs in Special Economic Zones (SEZs). By identifying policy gaps and recommending reforms, the research advocates for a standardized legal framework to enhance the growth of co-working spaces while fostering innovation, sustainability, and collaboration. These findings underline the need for continuous adaptation in land use and regulatory strategies.

Keywords: co-working spaces, commercial real estate, land laws, regulatory framework, sustainability

1. Introduction

Commercial real estate refers to non-residential immovable property utilized for business purposes or land that has the potential to generate income. Such properties are primarily leased or rented to tenants to earn rental income. Interestingly, apartment buildings also fall under the category of commercial real estate despite being residential in use, as they generate income through rents. Other notable examples include shopping malls, hotels, hospitals, office spaces, and land earmarked for future commercial use.

The term "co-working," as defined by the Cambridge Dictionary¹, refers to “a way of working in which people who work for different employers or for themselves share a building or office, often in order to be able to share ideas.” Essentially, a co-working space is a shared office environment where individuals from various companies, industries, or professional backgrounds work together. These spaces enable individuals to work independently on diverse projects or collaboratively on shared goals while sharing common business expenses like infrastructure, utilities, and amenities.

Over the last decade, and especially after the COVID-19 pandemic, there has been a significant rise in the demand for co-working spaces. The pandemic catalyzed a shift in work dynamics, with hybrid and flexible working models becoming the norm. Traditional office setups are now being replaced or supplemented by co-working spaces, driven by their flexibility, cost efficiency, and collaborative opportunities. Co-working spaces are no longer a fleeting trend but a transformative force reshaping the commercial real estate sector, especially in India. They have expanded from catering primarily to freelancers and startups to becoming hubs for large enterprises seeking satellite offices, innovation spaces, or project-specific setups.

This paper seeks to provide a comprehensive analysis of how co-working spaces are redefining commercial real estate in India. It also examines the role of land laws and regulatory frameworks in enabling or hindering their growth. By doing so, the research aims to offer insights and policy recommendations for stakeholders in the real estate and co-working sectors.

2. Overview of Commercial Real Estate and Land Laws in India

Maharashtra, being one of India's most industrialized states, has a robust framework of land

¹ Cambridge Learner's Dictionary 4th Edition (2021)

laws that govern commercial real estate. The **Maharashtra Land Revenue Code, 1966**, plays a foundational role, outlining provisions for the classification, use, and conversion of land for commercial purposes. Additionally, the **Development Control and Promotion Regulations (DCPR)**² govern zoning, land use, and building permissions, ensuring planned urban development. Specific laws like the **Maharashtra Tenancy and Agricultural Lands Act, 1948**, regulate the conversion of agricultural land for non-agricultural purposes, including commercial use. Landowners must obtain Non-Agricultural (NA) permissions from the relevant revenue authorities to use agricultural land for commercial purposes such as co-working spaces or office developments. These regulatory measures are aimed at maintaining a balance between urban growth and agricultural preservation.

Maharashtra's progressive land policies and real estate regulations have made it a leading market for co-working spaces. Cities like Mumbai and Pune have seen a surge in demand for flexible office spaces due to the high density of startups, IT companies, and financial institutions. The **Maharashtra Regional and Town Planning Act, 1966**, facilitates the development of commercial zones, enabling co-working operators to lease or purchase properties in strategic urban areas.

Additionally, the **Maharashtra Housing and Area Development Authority (MHADA)** and the **Slum Rehabilitation Authority (SRA)** policies have opened opportunities for commercial redevelopment in underutilized areas. Many co-working operators have capitalized on rehabilitated or repurposed properties, converting them into modern workspaces. Furthermore, the state government's **Maharashtra Industrial Development Corporation (MIDC)** initiatives have supported the establishment of commercial spaces in industrial and special economic zones (SEZs). These SEZs offer favorable tax policies and infrastructure, making them ideal for co-working hubs.

Impact of urbanization and demand for flexible office spaces on commercial real estate.

Rapid urbanization in Maharashtra, driven by population growth and economic development, has fuelled the demand for commercial real estate, including flexible office spaces. Mumbai, as the financial capital of India, experiences high real estate costs, pushing businesses to

² Available at

<https://www.mcgm.gov.in/irj/go/km/docs/documents/EODB/Construction%20Permit/Related%20Circulars/DCPR-%2020234%20and%20Notification.pdf>

explore cost-effective alternatives like co-working spaces. Pune, with its thriving IT and educational sectors, has emerged as a hub for startups and SMEs, further boosting the demand for shared office spaces. Urban sprawl and infrastructure projects, such as the Mumbai Metro, Pune Metro, and expressway expansions, have significantly impacted the commercial real estate landscape. These developments have improved connectivity, making peripheral areas like Navi Mumbai, Thane, and Hinjewadi attractive locations for co-working spaces.

Moreover, post-pandemic work trends, including hybrid work models, have amplified the need for flexible office solutions. Co-working spaces are seen as an economical alternative to traditional office setups, providing scalability, lower capital investment, and shared resources. This shift has not only revitalized underutilized commercial spaces but also created opportunities for smaller businesses to access premium office facilities.

3. Regulatory Framework for Co-Working Spaces in India

Zoning Laws and Land Use Regulations

Zoning restrictions on converting residential or industrial land for commercial use: Zoning laws regulate land use by categorizing areas into residential, commercial, industrial, and other specific zones. In India, local municipal corporations and development authorities enforce these regulations. For co-working spaces, converting residential or industrial land to commercial use often requires approvals and compliance with state-specific laws like the **Maharashtra Regional and Town Planning Act, 1966, or the Karnataka Town and Country Planning Act, 1961**. The process can involve obtaining Non-Agricultural (NA) permissions and adhering to building codes, making it time-consuming and expensive.

Challenges in setting up co-working spaces in non-commercial zones: Co-working spaces face challenges such as legal restrictions on operating in residential zones, disputes with residents, and non-compliance penalties. These issues are exacerbated by the high cost of prime commercial spaces, pushing operators to explore mixed-use properties. However, mixed-use zoning is not uniformly implemented across states, leading to regulatory uncertainties.

Lease and Licensing Agreements

Most co-working operators lease properties using long-term lease agreements or licenses, governed by the **Transfer of Property Act, 1882**. Leases grant operators the right to exclusive

possession of the property, while licenses provide limited rights, making them more flexible but less secure. Sub-leasing and licensing provisions for co-working operators: Co-working spaces often rely on sub-leasing or license agreements to accommodate users. Sub-leasing allows operators to rent portions of the leased property, while licensing ensures flexibility for short-term users. However, sub-leasing must comply with lease terms, and failure to obtain the landlord's consent can lead to disputes or termination.

Legal risks and mitigation strategies in co-working agreements: Key risks include ambiguities in lease terms, non-compliance with zoning laws, and conflicts over sub-leasing rights. To mitigate these risks, operators should ensure detailed contracts with clear clauses on usage, renewal terms, and dispute resolution. Legal due diligence on property titles and compliance with municipal regulations is essential.

Applicability of RERA to Co-Working Spaces

The **Real Estate (Regulation and Development) Act, 2016 (RERA)** governs the sale and purchase of real estate projects, primarily focusing on residential properties. However, its provisions also extend to commercial real estate, including co-working spaces, where the operator owns or is selling property units. For leased properties, RERA is less applicable unless there is a sale or registration of a project.

Foreign Exchange Management Act, 1999

FEMA regulates foreign investments in Indian commercial real estate, outlining the rules for foreign direct investment (FDI) in real estate, including commercial properties. Foreign investors must adhere to FEMA provisions, which include limits on investments, guidelines for repatriating funds, and reporting obligations.

Environmental Laws

Commercial real estate projects in India are required to comply with environmental laws and regulations. The Environment (Protection) Act, 1986, and the Environmental Impact Assessment (EIA) Notification, 2006, mandate developers to secure environmental clearances, reduce environmental impacts, and follow sustainable development practices.

4. Emerging Trends and Challenges in Land Laws for Co-Working Spaces

Digitization of Land Records

Maharashtra's proactive approach to digitizing land records under the **Maharashtra Bhumi Abhilekh (Digital Land Records Modernization Programme)** has also streamlined property transactions. Accurate land records and title deeds have reduced legal disputes, making the state a favourable destination for commercial real estate investments. The digitization of land records is a crucial step in reducing fraud and ensuring transparency in the real estate sector. Digital land records allow co-working operators and property managers to quickly verify property titles, ownership, and transaction history, reducing the risks associated with leasing commercial properties. By having easy access to verified data, operators can make informed decisions when leasing spaces, ensuring legal clarity and reducing the likelihood of disputes with landlords or tenants. Initiatives such as the **Digital India Land Records Modernization Programme (DILRMP)**³ aim to modernize land record systems across India, making them more accessible, transparent, and accurate. By digitizing land records, these initiatives help streamline property transactions and registration processes, enhancing investor confidence in commercial properties. DILRMP is particularly beneficial for co-working operators who require hassle-free property validation, thereby promoting a smoother leasing experience and reducing potential legal and administrative delays.

Sustainability and Green Building Compliance

As the demand for co-working spaces grows, compliance with environmental regulations has become increasingly important. Co-working operators must adhere to local environmental laws, including waste management, water conservation, and energy efficiency, to reduce their carbon footprint. Commercial properties housing co-working spaces must meet environmental standards set by local authorities and ensure that the construction and operation of these spaces do not harm the environment. Compliance is also an important factor for tenants, particularly corporations that prioritize sustainability in their business operations.

The **Energy Conservation Building Code (ECBC)**, introduced by the **Bureau of Energy Efficiency (BEE)**, promotes energy-efficient building practices in India. Green building

³ Government of India initiative launched in 2016 to modernize the management of Land Records, minimize the scope of land/property disputes and enhance transparency in the land records maintenance system.

certifications such as **LEED**⁴ and **IGBC**⁵ are becoming increasingly popular among co-working spaces, as they align with both environmental goals and business interests. Co-working operators are encouraged to incorporate sustainable features such as solar panels, energy-efficient lighting, and water-saving technologies to comply with ECBC standards. These practices not only help reduce operational costs but also appeal to eco-conscious tenants, giving operators a competitive edge in the market.

Legal Challenges in Urban Land Availability

In rapidly urbanizing cities like Mumbai, Delhi, and Bengaluru, land scarcity and high prices are significant challenges for the expansion of co-working spaces. Urban land, especially in prime locations, is expensive, making it difficult for co-working operators to find affordable spaces that align with their business models. The high cost of land acquisition or leasing increases operational expenses for co-working space operators, potentially making them less accessible for startups and small businesses. This scarcity also leads to intense competition among operators for prime locations, further driving up costs.

The repeal of the **Urban Land Ceiling and Regulation Act (ULCRA)** in 2007 has had a significant impact on the availability of commercial land in urban areas. The ULCRA previously imposed limits on the amount of land an individual or entity could own, which restricted land use for commercial development in cities. Its repeal has unlocked a substantial amount of land for commercial real estate development, including co-working spaces. However, this has also resulted in land speculation, further driving up property prices in high-demand areas. While the repeal has increased commercial land availability, it has also exacerbated the affordability issue for co-working operators, making it crucial to find innovative solutions for space utilization and affordability.

5. Special Economic Zones (SEZs) and Co-Working Spaces

Benefits of establishing co-working spaces in SEZs under the SEZ Act, 2005

Special Economic Zones (SEZs) offer a range of benefits for businesses, including co-working space operators. Under the **SEZ Act, 2005**⁶, businesses operating within SEZs enjoy tax

⁴ Leadership in Energy and Environmental Design

⁵ Indian Green Building Council

⁶ Special Economic Zones Act, 2005

incentives, exemptions from customs duties, and streamlined regulations for ease of doing business. Co-working spaces within SEZs can attract startups, IT companies, and international corporations, as they offer cost savings in terms of taxes and operational expenses. Additionally, the proximity to other businesses and enhanced infrastructure in SEZs provides a collaborative and innovative environment, making them ideal locations for co-working hubs.

Regulatory challenges and incentives for co-working operators in SEZs

While SEZs provide numerous advantages, co-working space operators face regulatory challenges, particularly regarding the zoning of spaces and adherence to SEZ-specific rules. For example, operators must comply with specific regulations related to the nature of operations within SEZs, which are intended to promote export-oriented business activities. The stringent rules around land use and foreign direct investment (FDI) can also pose challenges for co-working operators who are not directly involved in export activities. However, the **tax exemptions** on income, infrastructure subsidies, and the availability of skilled labor are major incentives for co-working operators looking to set up in SEZs, making these zones attractive despite the regulatory hurdles.

Case studies of successful SEZ-based co-working hubs in India

a. Maharashtra

Maharashtra hosts several SEZs with commercial real estate, supporting IT, ITeS, and multi-sector industries. Key examples include Hinjewadi IT Park and EON Free Zone in Pune, Mindspace SEZ in Navi Mumbai, and SEEPZ in Mumbai, offering office spaces for businesses. These zones house major corporations like Infosys, Accenture, and Barclays while providing tax benefits, modern infrastructure, and flexible workspaces. Emerging projects like Reliance Navi Mumbai SEZ further boost Maharashtra's appeal for commercial and industrial growth.

b. Bangalore

Bengaluru's Whitefield Special Economic Zone (SEZ) is a prominent commercial and technology hub located in the eastern part of the city. It serves as a designated zone for promoting economic activities, particularly in the IT and IT-enabled services (ITeS) sector. SEZs like Whitefield offer various fiscal and regulatory incentives, such as tax benefits,

simplified customs processes, and streamlined compliance, to attract foreign and domestic investments.

Whitefield SEZ houses several tech parks and corporate campuses, including major establishments like International Tech Park Bangalore (ITPB), Sigma Soft Tech Park, and RMZ NXT, hosting companies like TCS, Dell, and Oracle. The area is also well-equipped with infrastructure like residential complexes, malls, schools, and connectivity via roads and the upcoming Namma Metro expansion. Its development has made Whitefield one of Bengaluru's most sought-after locations for businesses and residents alike.

6. Case Studies

a. WeWork⁷

WeWork, a global leader in coworking, entered the Indian market in 2017 through a partnership with Embassy Group and has since become a key player in the country's commercial real estate sector. With over 6.5 million square feet of managed space across major cities like Bengaluru, Mumbai, Delhi-NCR, Hyderabad, and Chennai, WeWork has redefined office spaces by offering flexible, tech-enabled, and community-driven work environments. Catering to startups, freelancers, and large enterprises, it provides tailored solutions, including hot desks, private offices, and enterprise setups. Despite challenges during the pandemic, WeWork India achieved profitability by 2023, maintaining high occupancy rates and capitalizing on the hybrid work trend.

b. IndiQube⁸

IndiQube is a rapidly growing coworking and managed office space provider in India, catering to startups, SMEs, and enterprises looking for flexible and scalable workspace solutions. Established in 2015, IndiQube operates across key cities like Bengaluru, Pune, Hyderabad, Chennai, and Mumbai, offering tailored office spaces with modern amenities, including smart access, meeting rooms, and breakout zones. Known for its "Growth Environment" model,

⁷ Available at https://wework.co.in/workspaces/private-office-space/mumbai/?utm_source=search&utm_medium=cpc&utm_campaign=Pfx_Search_Brand_Mumbai_Desktop_April24&utm_content=Core&utm_term=wework&utm_device=c&utm_matchtype=b&gad_source=1&gclid=CjwKCAiAneK8BhAVEiwAoy2HYWBHQjKQ0z700c8T4UBhNLSavpBtaIQejF2PcO6YrqW9dPE8B2WHQxoCVR8QAvD_BwE

⁸ Available at <https://indiqube.com/>

IndiQube combines workspace customization with end-to-end support services such as IT, HR, and compliance management. Its client-centric approach and ability to provide personalized office spaces have made IndiQube a prominent player in India's coworking ecosystem, especially among growing businesses.

7. Policy Gaps and Recommendations

Identification of gaps in existing land and commercial property laws:

One of the key gaps in existing land and commercial property laws is the lack of clarity and consistency in zoning regulations for co-working spaces. Many states still rely on outdated zoning laws that fail to recognize the unique nature of co-working spaces, which often blend residential, commercial, and industrial elements. Additionally, land laws do not adequately address the increasing demand for flexible, short-term leasing models that are central to co-working operations. Another gap is the slow pace of digitization in land records, which can lead to delays and complications in property transactions, especially for co-working operators seeking timely verification of land titles and ownership.

Recommendations for regulatory reforms to support co-working space growth:

To foster the growth of co-working spaces, it is essential to update and streamline zoning regulations to classify co-working spaces as a separate category within land use laws. This would provide clear guidelines for operators and eliminate ambiguity. Additionally, there should be reforms in property leasing laws to accommodate the flexible and short-term nature of co-working arrangements, allowing operators to lease smaller spaces with lower upfront costs. Encouraging the digitization of land records on a broader scale would also facilitate quicker property transactions and greater transparency. Furthermore, providing tax incentives and subsidies for co-working operators, especially those promoting sustainability and innovation, could further accelerate sector growth.

Suggestions for a standardized legal framework to address co-working-specific issues:

A standardized legal framework is crucial for ensuring that co-working spaces are legally recognized and treated fairly across the country. This framework could establish standardized contracts for leasing and licensing agreements, addressing unique aspects such as shared resources, sub-leasing, and tenant turnover. Additionally, laws should ensure that co-working

operators can easily navigate building codes and environmental regulations without being penalized for the flexible nature of these spaces. The framework could also include a dedicated regulatory body that oversees the development, compliance, and growth of co-working spaces, ensuring that they meet both legal and sustainability standards. This would offer consistency and clarity for operators, investors, and tenants alike.

8. Conclusion

The research highlights that the growth of co-working spaces in India is significantly influenced by land laws and regulatory frameworks. While the demand for flexible, collaborative workspaces continues to rise, existing land use regulations, zoning laws, and property leasing models have not kept pace with the evolving needs of co-working operators. However, initiatives like the digitization of land records and progressive policies in certain states are helping streamline property transactions. Despite these advancements, there is a need for further reforms in zoning, property leasing, and legal frameworks to ensure the continued growth and scalability of co-working spaces in the future.

For developers, understanding the legal nuances of commercial land use, leasing, and zoning is crucial to capitalize on the growing demand for co-working spaces. Co-working operators need to stay updated with changes in land laws to navigate challenges related to property acquisition, leasing terms, and compliance with environmental regulations. Policymakers play a vital role in creating a regulatory environment that supports innovation, sustainability, and growth in the co-working sector. Clearer zoning laws, tax incentives, and a dedicated framework for co-working spaces will help stakeholders maximize their potential and drive future growth in the commercial real estate market.

Future research could focus on understanding the long-term impacts of co-working spaces on urban real estate markets and their role in revitalizing underutilized commercial spaces. Studies could also explore the economic benefits of co-working spaces for small businesses, startups, and large enterprises. Additionally, examining the role of co-working spaces in fostering innovation and collaboration across industries, along with the legal and regulatory challenges they face, would provide valuable insights. Research into the integration of sustainable practices within co-working spaces and the potential for green building certifications could be another promising area of study.