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The Development of Corporate Real Estate Practices in India: A Survey of CRE Professionals

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Business process outsourcing (BPO) is transforming Western companies' corporate real estate (CRE) requirements. When business processes move to a developing country there are consequences for that country's CRE practice. This paper considers the effects of western BPO on Indian CRE. Qualitative and quantitative analysis was used to analyze data from a survey of professionals operating in Indian CRE. Location issues, quality of workspace, and the availability of human resources were identified as important in establishing BPO activities in India. Suburban, and campus or built-to-suit facilities, were increasingly preferred locations and styles of workplace that were transforming Indian CRE practice. Also, the effect of western BPO was impacting on the types of CRE services being offered. With the continuing growth in BPO to 'secondary cities' the transformational effects on local CRE practice are likely to spread and further transform CRE practice in India.

Keywords

India; real estate; business process outsourcing; practices; transformation

Introduction

The advent of business process outsourcing (BPO) is transforming the way companies operate and their corporate real estate (CRE) requirements. Throughout the 1990s, management experts emphasized the need for businesses to focus on their core competencies, of which Prahlad and Hamel (1990) were influential. This relegates support functions non-essential to their competitive differential to outside service providers (Gibler and Black, 2004; Donovan, 2003). There are several reasons for this that include cost savings, sharing of risk, access to scale of services and 'best practice,' enabling change, and flexibility (Timm, 2005).

Business process outsourcing is now a routine practice that is realizing cost reductions of 5% to 15% or more over conducting those activities in-house (Ernst and Young, 2002). Even a 5% cost savings, spread over a corporate property portfolio of thousands of square meters, added up to millions of dollars in annual savings (Bogle, 2003). However, the need for CRE does not completely disappear. In many instances at least a portion of the space requirement transfers to the business process service provider, where the business process is conducted in a developing country, such as India, the CRE need transfers to that country. As a low-cost business process provider the real estate costs are incorporated into the overall lower costs to the BPO organization.

Since the outsourcing market started in India around 1991, after a liberalization of the economy, it has rapidly become a global hub for back-office services. Anywhere from one half to two thirds of all United States Fortune 500 companies are already outsourcing to India, and according to Forrester Research, the amount of work undertaken for U.S. companies expected to more than double over the next couple of years (Overby, 2003). As Western (primarily U.S. and European) companies increasingly shift their information technology services and other back office works to the subcontinent, this has a considerable effect on the CRE services in India.

The global outsourcing market encompasses outsourcing of business processes by sectors such as information technology, information technology enabled services, financial services, telecom and airlines, among others. All these sectors depend upon the ability to be remotely serviced. Traditionally, business processes have been outsourced to countries like Ireland,

Philippines, Australia, and Singapore. However, India and China are now included (Chaudhry, 2003). There are indications that European software services outsourcers may prefer new contenders, like Hungary, Poland, and the Czech Republic for reasons including proximity and similarities in time zones, culture and language (Gartner, 2002). However, at present they represent no real threat to the top three nations with as many as 25% of traditional information technology jobs in developed countries thought to be in emerging markets by 2010 (Krishnadas, 2004).

Location is viewed as an ongoing management priority as opposed to a periodic challenge to assist when a new facility becomes necessary. Location selection criteria are changing consistent with the core competency thesis and organizational cost reduction strategies. Various factors currently exerting substantial influence over location of corporate facilities include:

- Utilization of technology to maximize operational performance;
- Cost reduction and maximum efficiency throughout the supply chain;
- Rapid delivery of goods and services to customers;
- Recruiting and retaining the best talent, from entry level through professional and technical;
- Minimizing disaster risk and ensuring business continuity; and
- Concentrating resources on what a company does best (both products/services and functions such as innovation, manufacturing, distribution, customer service) (Donovan, 2003).

Since 1991, India has emerged as a strong contender for back-office services owing to its vast pool of skilled manpower available at a low cost, and its location attractiveness offering 24-hour operations. India's attractiveness has been further enhanced with rapid improvements in information, telecommunications infrastructure mainly driven by the establishment of contact centers and back-office operations for multinational corporations. Much of the credit for these developments goes to India's southern states. According to a Confederation of Indian Industry (CII) study, cited by Krishnadas (2004), the southern states, based on cities like Bangalore, Chennai, and Hyderabad have been key factors in making India a major global player. These states have emerged as growth poles, creating centers of excellence in information technology, biotechnology, and pharmaceuticals by leading the way in producing 'knowledge workers' through creating centers of academic excellence.

While this BPO is impacting on CRE practices around the world the bulk of CRE research literature is U.S. and UK-centric (Deakin, 1999). Limited research has been published from elsewhere, though this is growing, for example Australasian research includes Brackertz et al. (2002), Kenley et al. (2000a), Kenley et al. (2000b), Kooymans (2000), Leifer (1998), McDonagh

and Hayward (2000), McDonagh (2002), and Teoh (1993) and elsewhere there is Deakin (1996), Krumm et al. (1998), Krumm and de Vries (2001), Moore and Finch (2004), and Roulac et al. (2003). The literature on Indian CRE, though useful, is limited to professional journals.

Development of Indian CRE to Date

Corporate real estate, as such, is not a recognized industry in India. Indeed, real estate as a business is in its infancy. Historically, specific guidelines or practices to trade real estate in India have not existed. The concept of classified office and retail space dates back only to approximately 1994, yet today, every Indian metropolitan city boasts a substantial amount of 'Grade A' office space. This has been driven, primarily, by the large number of multinationals and the information technology-enabled services industry who had entered the country after the economic liberalization. While the initial waves in the early 1990's took up any kind of facility available at exorbitant costs, there was a growing perception that although the rate was up to \$54 per square meter per month (Kumar and Tare, 2003), they weren't getting the quality of corporate real estate services they received elsewhere in the world. The multinational companies investing in India now expect a high level of services and infrastructures so that they can operate as planned and maximize benefits from their location in India.

The preferred Indian cities for locating IT-enabled services (ITES) ventures are Mumbai, Chennai, Delhi, Bangalore, and Hyderabad. This is not only due to other location factors, but also due to the presence of the support services. In these cities development activity due to easier availability of land is characterized by construction of larger floor plates and offers of custom-built facilities from developers. Secondary cities like Pune, Cochin, Mysore, Jaipur, Vijayawada, Nagpur, and Kolkata qualify on many of the factors but have lacked support services.

Within CRE services, the three main kinds of real estate services being outsourced in India are:

- Transaction management – managing transactions for buying and selling properties or leasing space;
- Facilities management – managing day to day operations of corporate properties and facilities; and
- Project management – managing design, development and construction of corporate facilities (Bogle, 2003).

Research Aims and Methods

Aim

Since India is a third world developing country, little is known in other countries about India's corporate real estate structure and operations for those setting up BPO there. To address this question, this paper reports a study that surveyed CRE executives involved in the property industry in India to examine BPO in India and its consequences on CRE and its management. Part of the study is previously reported in Naidu et al. (2005), whereas this paper reports on how BPO is affecting the CRE structure in India. Particular emphasis is placed on the kind of workspace sought after, corporate real estate services, and location trends.

Methodology

A written questionnaire with ten questions was distributed to 50 participants via post and email. Email was particularly used as it facilitated an easy mode of survey return for participants with 30% of all surveys returned. Though the response rate was less than half, the reasons for this are uncertain but it appears that time demands for CRE executives were a contributing factor.

The survey questions were a combination of closed and open-ended questions. The open-ended questions were to allow participants to give their insight concerning observed trends in Indian corporate real estate. The closed questions were grading questions where the participants were asked to grade some major factors identified in the literature research (1 being least important to 5 as most important).

The participants were a purposive sample sourced from industry contacts, and included executives working in CRE activities in India and the UK. Facility managers, project managers, corporate architects, real estate research consultants, and business development professionals, both from the service and client sides of the industry were included. The UK questionnaires were to executives working in the client side of the industry who are actively involved in opening up office spaces in India. The survey was conducted between June and September 2004.

The Effect of BPO on Indian CRE

All the participants agreed with the proposition that Indian real estate and the way it was dealt with in the past had changed due to the influx of Western companies. They were also of the view that corporate real estate is

an evolving process and since the concept is quite new to India, it still has to grow and will keep growing in the coming years. Participants identified some of the key ways Indian real estate has evolved as a Western companies setting up base in India (Table 1):

Table 1: Identified effects of BPO on Indian CRE

- A huge spurt in the real estate industry due to companies that have brought with them new specifications and practices.
- Increase in quality of construction and infrastructure with (a) larger floor plates, and (b) efficient buildings.
- Lot of technical diligence onto choosing the right real estate infrastructure analysis, work pool surveys.
- Advent of project management (a new concept in Indian real estate) is evidence of emerging trends in CRE services.
- Need for modern trends and high service levels has made the market more mature and to keep up with the pace federal authorities are sprucing up infrastructure.
- More professional in delivery of services by CRE professionals.
- Developers are more professional and build-to-suit accommodation is constructed more rapidly and to a higher quality of construction.
- Increase in competition.
- It is changing and evolving to meet the business requirements for outsourced staff/groups, this may have differing requirements. CRE is a subject that continually evolves and will do so even more to come.

Looking in more detail at aspects of supply and demand and the evolution of CRE services the following observations were made (Tables 2 to 4).

Table 2: Observations on supply issues

- Increase in stock and decline in values.
- Growth in suburban areas due to cheaper real estate.
- Customization of buildings to suit tenant.
- Competition between builders to provide 'A Grade' buildings.
- Real estate products now being benchmarked with grade properties across cities.
- Supply of human resources is getting saturated so corporations were shifting to smaller cities.
- Not much available in the CBD but in the suburbs.

Table 3: Observations on demand issues

- Supply and demand based on the economy. If downward trend, then oversupply. If upward trend, builders can't build fast.
- 65%-70% of demand is from IT companies.
- Companies are expanding to multiple locations; hence smaller cities are witnessing increase in demand.
- Demand has resulted in a scarcity of good 'Grade A' commercial properties.
- Suburbs are the main hubs for future demand, and constant development is happening there.

Table 4: Observations on corporate real estate services (CRES)

- New specifications and practices have been introduced for CRES.
- Market sophistication leads to innovation and evolution.
- CRES have increased owing to focused thought and knowledge of the outsourced professional firms.
- CRES have improved due to competition and demand for high level of services.
- More service providers entering the fray – like Project Management and Facility Management consultants.
- Fly-by-night operators are being eliminated.

Some of the comments in these tables overlap, but the comments in Table 1 give an insight into changes in CRE structure in India due to BPO with most participants agreeing that it definitely has changed. New specifications and practices have been introduced. It has increased the quality of construction, with more importance given to large floor plates and efficient buildings. There have also been opportunities for international property consultants to set up Indian operations. This has created a competitive edge, and more professionalism evident in conducting corporate real estate business compared to previous years.

The effect of BPO on supply and demand of commercial spaces for CRE purposes and corporate real estate services confirmed that a shift from preferences for CBD locations was occurring (Tables 2 and 3). The suburbs have become a focus for corporate real estate due to cheaper real estate, but this is not the only reason, as discussed below. The use of benchmarking also showed up, with real estate products being benchmarked with similar grade properties across cities. Suburbs are thought to remain as the main hub for future demand, and that there would be a constant development in the suburbs in the coming decade to accommodate the influx of IT and ITES sectors.

Corporate real estate services have also been impacted due to BPO with the advent of new corporate real estate services specifications and practices, and

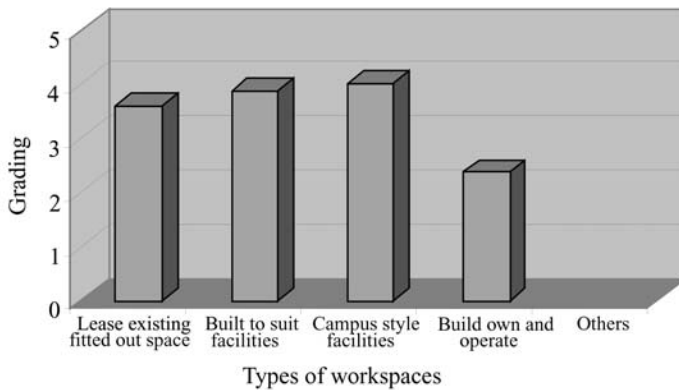


demand for high level services. Indian corporate real estate and its practice is evolving and new concepts like project management and facility management are some of the key CRE services sought after by multinational companies. The influence is felt even by the local developers who are concentrating more on and competing for building better buildings.

Workspaces and Locations

While much of the early impact of Western BPO was focussed on real estate around the city centres this survey revealed that the demand was shifting. The results in Figure 1 show that companies setting up operations are having preferences for setting up workspaces in their own campus style facilities (for instance, the Philips Software Centre in Bangalore), or using a built-to-suit option that many developers are offering. Leasing out existing fitted out space is mainly limited to the CBD areas where new companies need a liaison office with government or other authorities. Build, own, and operate workspaces still remains in the industry that is limited to companies that have originated in India.

Figure 1: Types of workspaces companies are seeking



With regard to preferred locations for BPO, the results in Figure 2 show that 'Grade A' spaces in the suburban locations are preferred. It also confirms an earlier observation that the traditional trend of opening up offices in the CBD area is reducing. Reasons for why certain locations were preferred are reported in Table 5.

Figure 2: Preferred type of location for corporate real estate

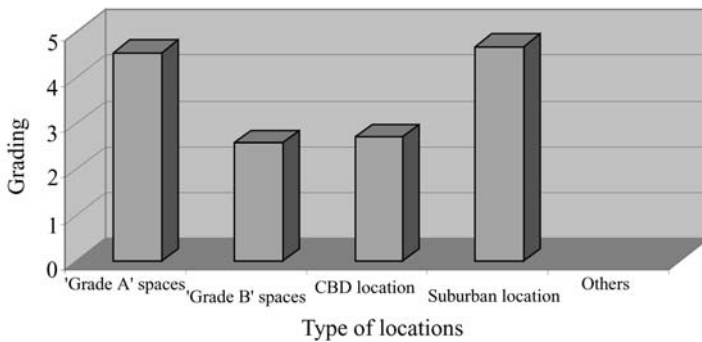


Table 5: Reasons for workplace preferences

- Depends on kind of use. Suburban areas ideal due to lower real estate costs.
- Access to labor force in suburban areas and modern facilities.
- Suburban areas due to large floor plates and good parking facilities.
- Suburban government identified strips of land for IT enabled facilities.
- Huge tracts of real estate available in suburban locations.
- Government sponsored industrial estates.
- Suburban due to proximity to city centre.
- Suburbs located close to employee pockets.
- Now suburban in future secondary cities will see growth.
- CBD - Finance/legal and retail/young employee based companies.
- Suburban location, larger corporates and ITES sector.

Together, Figures 1 and 2 and Table 5 illustrate the kind of workspaces and locations that were most sought-after by firms to buy or lease their real estate, and the reasons behind it. Some of the participants also referred to the trend of real estate selection in the past where companies that initially came in to India did a start-up operation in the CBD area, primarily in cities such as Bangalore, Delhi, Mumbai, Hyderabad, and Chennai with 'Grade A' areas preferred. But now the trend is moving towards the suburbs. This is due to various reasons, such as the availability of land at cheaper rates, proximity to the city; government sponsored industrial estates, often with large tracts of land, good parking facilities, proximity to workforce, availability of huge floor plates, and the possibility of campus-style facilities.

The survey results also indicated that companies instead of having leased office in different locations prefer to consolidate operations into one facility. Built-to-suit facilities are being offered by developers, where the building is specifically built to the clients needs if the client signs a long lease term. The common lease term is 3+3+3 years. By consolidating its business units,

firms are also looking to improve productivity and take advantage of the synergies possible through employee proximity.

Participants were also of the view that due to decreases in availability of human resources in the primary cities, the future might see offices moving to secondary cities like Cochin, Jaipur, Mysore, Pune, and Gurgaon, despite lesser support services.

Continuing the Transformational Effects

As noted earlier, participants had reported the impact of BPO on Indian CRE. They were also of the view that corporate real estate will continue to develop in India as long as information technology and information technology-enabled service sectors keep outsourcing to India for at least the next decade. The continuing transformation of Indian CRE was thought to be a strong possibility (Table 6), though there were some possible constraints (Table 7).

Table 6: Comments on the future of the transformational effects of BPO

- CRE will develop in India as long as economy is driven by the spurt in industrialization and IT services.
- Continue to become more professional and increase in CRE functions.
- It is up-market and will grow stronger with the amount of healthy competition getting into the market.
- Upward trend for a decade unless political scenario changes drastically.
- Will follow the present trend at least for the next decade.
- CRE business related to growth or fall of outsourcing.
- Tremendous scope for the industry.
- The market should keep a close attention to who's locating to India and why.
- Locations and countries fall out of fashion reasonably quickly.
- Real estate needs to grow to Western detail very quickly.
- If India can provide consistency and real quality product on par with the rest of the western world it would certainly improve.
- It has to surpass these existing standards and evolve beyond.

Table 7: Constraints on the transformational effects of BPO

- Competition from other countries will influence outsourcing in the future.
- Flow of jobs from other countries to India has led to outcry from western workers (possibly leading to a backlash).
- Future opportunities in India are immense and skills are available in abundance.
- Government policies needs changes and needs to be consistent to encourage (continuing) outsourcing.
- Economic and political instability along with social infrastructure has restricted growth into secondary cities.

Clearly, participants believe that corporate real estate will continue to develop in India as long as the economy is driven by the sharp increase in industrialization and IT services. Now corporate real estate services are limited to project, facility, and transaction management. The future would see portfolio management, risk management, lease administration, data management, and space planning or workplace management to name a few of the corporate real estate services entering the Indian market. Some of the participants were also of the view that corporate real estate business is related to the growth and fall in outsourcing of IT and ITES jobs to India. They were also of the view that corporate real estate services has to grow to Western detail soon and consistency has to be maintained in the future services provides to keep corporate real estate activities dynamic for the future.

Conclusions

The effect of Western business process outsourcing on Indian corporate real estate practice has been substantial. Two main effects have been identified from this research. Firstly, there is a locational effect with the growth of suburban areas as the key area for real estate locations. Secondly, there was a related property industry effect that has changed the kind of corporate real estate services from what were offered in the past.

The initial waves of BPO were to central city locations, with a form of acceptance of whatever was available at the time. More recently, as the stream of BPO activities continue, a trend towards suburban locations is evident in conjunction with higher accommodation standards. This research clearly shows the preferences for suburban, campus style CRE of 'Grade A' standard. The evidence is that this style of accommodation is entirely the result of BPO activities. What this indicates is that India is no longer just a low cost provider of CRE in a BPO context. While this has been a key driver in the movement to do BPO in India, the preferred accommodation styles shows that strategic benefits from these workplace styles, evident elsewhere in the world, are now being sought for Indian workplaces. These benefits accrue from the physical workplace and the human resources attracted to them.

Much of the focus of BPO has been the southern Indian states and Mumbai. The research indicates that the future will see a growth of these industries in the secondary cities, with matching impacts on CRE in those locations. However, additional support from government is needed.

In the past, Indian corporate real estate services were limited to transaction management. The presence of BPO and its CRE need has created the demand for a wider range of corporate real estate services. These are being hired by not only the relocating corporations, but also by the builders and developers in India who are employing project management and facility management services. Increases in the kind of services offered by corporate real estate firms, in the main multinational service providers, has provided more professionalism to Indian CRE services, as required to meet the demands of firms outsourcing business process. Again this is a direct effect of business process outsourcing.

Despite its popularity, successful business process outsourcing to India might still contain difficulties with consequences for Indian CRE practice. An unknown factor is how much business process outsourcing continues or expands in the years ahead. While the market has matured, telecommunications and other infrastructures have improved, and English fluency has flourished, challenges still remain. Cultural issues are creeping in, service-level expectations are being set too high for the market to deliver, transitional costs are threatening, and ongoing relationship management is expensive and labor-intensive. Increasing labor costs are also one of the biggest challenges ahead. Among the main benefits cited in moving to India include the ready availability of well educated English speakers who are prepared to work for less money than their Western counterparts. Typically, wages are 60% lower in India. This advantage may reduce as labour cost arbitrage may cease over the long-term. A further consequence as a result of heavy promotion of India as an outsourcing haven is that multinational companies have moved in, often to the detriment of smaller, existing Indian outsourcing companies.

Future Research

This research is an early contribution to the investigation of Indian corporate real estate. There remains much that could be investigated. Similar studies on the impact of Western business processing in other countries are also possible. China would be an interesting example, as it constitutes not only a developing economy but one with a transitional property market as well



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