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The impact of business outsourcing on corporate real estate in India

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ABSTRACT
Driven by Western companies’ requirements for efficiency and effectiveness, a trend towards outsourcing of business activities to India and other low-cost countries commenced in the early 1990s and has continued to grow at a surprisingly fast pace. In a relatively short timeframe India has become a global hub for back-office services, although the effect on the urban cities is yet to be fully comprehended. As American and European companies continue to relocate their information technology services and other back office works to the subcontinent, there has been a considerable flow-on effect on Indian corporate real estate.

This paper addresses two key questions. Firstly, the factors important for Western companies’ outsourcing of organisational activities to India, and secondly, the effect of business outsourcing on corporate real estate locational requirements in India. A survey of corporate real estate representatives in India and the UK was conducted with the results providing an insight into the present state and possible future direction of outsourcing for India. This research presents a unique insight into the impacts of Western business outsourcing on corporate real estate in India, and presents findings that are useful to both organisations seeking to relocate business activities to India and for property market analysts looking to understand drivers behind this sustained demand for Indian corporate real estate.

Keywords: corporate real estate, India, business process outsourcing, demand drivers

INTRODUCTION
Western (multinational) companies are driven by the need to improve organisational efficiencies and effectiveness. Outsourcing of organisational activities has often been suggested as a means of reducing organisational costs, providing flexibility in dealing with change in the business cycle, and capturing innovation. Parallel to this development has been a move to locate business processes — be that manufacturing or back-office activities — to low-cost locations — often being less-developed countries (such as initial moves into Ireland and now Eastern Europe) or to developing counties (often located in Asia). Both these factors appear in considering the development of corporate real estate in India that is responding to Western companies locating operations there.

India has been identified as a geographical location that is a source of high quality, yet low-cost skilled manpower, with low establishment costs, and rapidly evolving IT and telecom infrastructure.

These coupled with advantageous time zone differences with developed nations in the northern hemisphere, have all contributed to India evolving as a preferred location for Western companies outsourcing their business processes (called ‘business outsourcing’ for the purposes of this paper).1 By 2003, between one-half to two-thirds of all US Fortune 500 companies had already business outsourced to India with the amount of work undertaken expected to more than double over the next couple of years.2 Western companies involved in business outsourcing to India
captures the cost advantages it offers and are rapidly transforming the Indian economy, making it one of the fastest growing economies in the world. 3 India’s attractiveness has been also enhanced due to rapid improvements in its infrastructure. In turn, business outsourcing to India has influenced the country’s traditional employment base, the composition of property markets and the structure of its cities. 4 As a result of this activity, the real estate suitable for corporate purposes (corporate real estate) in India has changed substantially. 6

Typical of the business outsourcing considered here is the locating of software application development and maintenance activities in India. This has been suggested as one of the best ways to cut these costs, to deal effectively with the peaks and valleys of software demands, as well as focus on a strategic organisational direction. 7,8 While other countries such as China and Russia are also enhancing facilities to support software development and output, India remains the undisputed destination for outsourcing IT services. 9 The growth of the information technology-enabled services industry has resulted in increased demand for real estate. 10 For example, IT enabled services companies alone occupy approximately 427,354 square metres (4.6 million square feet) of office space across various Indian cities. 11 Some secondary cities are also gaining prominence in siting considerations due to their lower costs, quality infrastructure and scalability. 12

That India continues as a preferred location for business outsourcing, substantial credit must be attributed to the India’s southern states where cities such as Bangalore, Chennai and Hyderabad have emerged as growth poles, creating centres of excellence in information technology, biotech and pharmaceuticals. 13 These regions created centres of academic excellence and in this process produced the ‘knowledge workers’ to drive these centres of excellence. 14 As Western companies continue to move aspects of their business operations to India, they have specific requirements with acquisition of suitable corporate real estate a high priority. 15,16

This paper examines the effect of Western company’s business outsourcing on India, with the focus placed on real estate markets that are most affected. It is supported by a survey of corporate real estate executives and service providers in the property industry in India and the UK, with particular emphasis placed on workspace, supply and demand, location trends and service levels. The results provide an insight into demand for corporate real estate in India and identify areas have received the most attention, including reasons for this demand.

BACKGROUND TO CORPORATE REAL ESTATE IN INDIA

As a stand-alone industry, corporate real estate still remains in its infancy in India with the first classification of ‘A’ grade classified office and retail space only dating back to the mid 1990’s. Now, all major Indian metropolitan cities boast a substantial amount of ‘A’ grade office space. The initial waves, in the early 1990’s, of Western companies business outsourcing to India were accompanied by an acceptance any kind of facility available, irrespective of the cost. However, more recently there is a growing perception that these companies were not accessing in India the quality of corporate real estate and services available elsewhere in the world. 17 Typical of these issues facing the establishment of Indian corporate real estate practices is that only recently are local private property developers beginning to fully comprehend the workspace specifications required for IT-enabled services operations. This local development, in addition to greater exposure from international service providers, is beginning to enable the delivery of quality real estate solutions at economical costs suitable for business outsourcing. 18 Furthermore, given the concerns Western companies may have regarding power and telecom infrastructure, Indian property developers are incorporating facilities such as power redundancies and telecom connectivity to buildings in sector-specific development projects. 19

LOCATIONAL DEMAND FOR CORPORATE REAL ESTATE

The major primary cities in India, namely Mumbai, Delhi, Bangalore, Chennai and Hyderabad, are preferred cities for locating IT-enabled services (ITES) ventures. This is not limited only to locational factors, but also due to the presence of the support services. Secondary cities like Pune, Cochin, Mysore, Jaipur, Vijayawada, Nagpur, and Kolkata qualify with many of the required attributes but lack adequate support services. Driven by the IT-ITES sector, the cities of Mumbai, Delhi, Bangalore and Chennai are experiencing development activity due to greater availability of land, construction of larger floor plates and offers of custom-built facilities. Figure 1 below highlights some of the major cities in India that are the preferred destinations for outsourcing.

The primary cities in India that are sought-after destinations by corporations for locating business operations are briefly reviewed below.

a) Mumbai — The financial capital of India
The Mumbai commercial real estate market comprises the Central Business District (CBD) of Nariman Point in south and the suburban business districts of Bandra-Kurla complex, Andheri-Kurla complex, Powai and Malad in the north. Suburbs in Mumbai have seen an upsurge in commercial space supply over the past few years with IT/ITES companies driving the market, especially in the central and northern suburbs (7). The majority of the new demand in CBD has been for office space for companies that essentially need to be closer to the government offices, stock exchange and financial institutions.

Figure 1 Major Indian cities where outsourcing is being undertaken

(b) Delhi — The political capital and power centre

The Delhi commercial market comprises largely of the CBD of Connaught Place and Secondary Business Districts (SBD) of Gurgaon and Noida, with Gurgaon has experiencing a substantial increase in ‘A’ grade office supply. Noida continues to witness the development of small buildings built on industrial and institutional lands, primarily for companies in the IT/ITES sector. Overall Gurgaon and Noida continue to remain the favoured location for IT/ITES companies20 (7).

(c) Bangalore — The Silicon Valley of Asia
With a population of approximately 6 million, Bangalore is the fastest growing city in India. The city experienced rapid economic growth during the 1990’s, where the liberalisation of the economy has since transformed the city from a retirement destination to a business powerhouse that is arguably the leading information technology centre in Asia and one of the top 10 hi-tech cities in the world; a distinction shared with Salt Lake City, Seattle, Boston, Tel Aviv and Singapore. The city was also rated the number one city in India to live and work in by Business Today.21

New commercial supply in Bangalore continues to be meeting the demand of the growing IT/ITES industry, with demand in the CBD mainly from start-up companies, entrants in the Indian market and those requiring liaison offices in the centre of the city. It appears that Bangalore is the preferred destination for IT/ITES companies.22 Bangalore offers substantially lower priced real estate along with a lower cost of living than Delhi and Mumbai. Furthermore, it also has a readily available pool of educated labour due to an agglomeration of education establishments. These, coupled with the climatic conditions, are the primary reasons why Bangalore is considered the ‘Silicon Valley of Asia’.23

(d) Chennai

Chennai commercial market comprises the CBD of Guindy and the SBD of Old Mahabalipuram Road (IT Corridor). The IT/ITES sector continues to be the main demand driver in the city, and companies have located in areas where ready-to-move-in office space is available. Demand for commercial office space continues to be for quality buildings and is concentrated around South Chennai.24

(e) Other cities

Two other cities on the list for companies opening offices in India are Hyderabad, called India’s ‘Cyber City’, and Pune called India’s ‘Silicon Alley’.25 Both cities have also experienced substantial growth in the commercial real estate sector during the past couple of years, primarily due to IT and ITES sector.

RESEARCH DESIGN AND METHODOLOGY

To ascertain the driving factors in locational aspects of Indian corporate real estate a written survey was sent to fifty professionals in India and the UK employed in, or connected to the corporate real estate industry in India. The questionnaires were distributed in July 2004 with a 30% response rate achieved. The respondents in India were executives ranging from facility managers, project managers, corporate architects, real estate research consultants and business development professionals, both from the service and client side of the industry. The questionnaires sent to the UK were to executives working in the client side of the industry who are actively involved in opening up office spaces in India.

OBSERVED TRENDS

All participants agreed with the following statement and confirmed there had been a trend in corporate real estate outsourcing in India since the development of computer technology.

“’There has been an observed trend of corporate real estate outsourcing in India. Do you agree with this statement? If so, why or why not?”

This was due to major Western multinational companies (MNCs) shifting their operations to India, which in turn influenced the growth of the real estate sector. In addition, most respondents included reasons why corporate real estate is being outsourced to India. Reasons for this trend were listed as:

Figure 2 Business activities outsourced to India can be found at the end of the article

Type of Business activities outsourced to India

—demand from MNCs for quality service to match international standards;
—(a) long term cost savings, (b) a specialist approach, (c) sophisticated management systems and (d) utilisation of global best practices; —the cost effective solutions that India offers investors;
—(a) Low-cost labour, an (b) uncomplicated employment structure and (c) government policies regarding privatisation;
—(a) comparatively inexpensive real estate and start-up costs, and (b) a large pool of educated English speaking
people;  
— the expansion of existing companies in India;  
— (a) lower long-term overall costs and (b) mobility, agility and scalability;  
And  
— corporations viewing India as a location for back office or non-core functions that do not have a material effect on the business, where the fundamental reason for this use is driven by the huge cost differences in the labour market.

Overall, the key reasons observed by the participants as to why Western corporate real estate was outsourced to India could be summarised under three main areas: (a) cost issues, (b) specialisation and service issues, and (c) best practice issues.

BUSINESS ACTIVITIES OUTSOURCED TO INDIA

The participants were asked to rank individual business activities that are outsourced to India based on a Likert scale, with 1 being least important and 5 being most important with the following selections available: software, IT enabled services, back offices, Business Process Outsourcings, call centres, hardware, medical or other.

The responses are summarised in Figure 2 below, where the major business activities being located in India are the Business Process Outsourcings (BPO’s) and back office operations, followed by call centres, IT enabled services and software development. To a lesser extent it was noted that hardware and medical activities were also locating in India, although to a substantially smaller degree. No responses were received for the category of Other as all outsourcing responses were addressed by the first seven categories.

*Figure 3 Factors favouring business outsourcing to India can be found at the end of the article*

PRIMARY FACTORS FAVOURING BUSINESS OUTSOURCING

This question identified the primary factors favouring business outsourcing to India, in order of importance. Respondents ranked these factors and also added their comments on those factors. The factors offered were real estate costs, low-cost labour, skilled English speaking people, government incentives, infrastructure, service levels, and other factors.

The results are summarised in Figure 3, with low-cost labour coupled with skilled English speaking people identified as the two main factors that have fuelled outsourcing to India. Other factors of significance are real estate, government policies, infrastructure, and service levels. In a similar manner to the previous question, no other factors were nominated as being of any importance.

However, some participants expressed their views on factors considered in business outsourcing. These responses varied in terms of the advantages, disadvantages and future considerations. The responses are summarised below under these three headings.

*Advantages*

**Real Estate Costs**
— cheaper than Europe and North America, although comparable to Philippines, Brazil and China;
— availability of ‘A’ grade real estate at minimal costs; and
— real estate costs equate to only 10 to 25% of the decision to open operations in India.

**Low-cost Labour**
— skilled labour coupled with limited pro-labour laws in service agreements.

**Skilled English Speaking People**
— speaking the language holds a substantial advantage over other neighbouring countries such as China, where more ‘non-speaking’ back office functions are expanding;
— existence of neutral accents, combined with low-cost skilled English speaking labour; and
— pool of intellectual English speaking people.

**Government incentives**
— greatly assists a corporation’s decision and considered a huge bonus;
— import and export excise duty waivers;
— lower infrastructure tariffs; and
— inexpensive land made available, coupled with land subsidies — sometimes land is free of cost.
Disadvantages

The disadvantages identified by respondents were unforeseen events, which in India were events such as:
—labour strikes at short notice;
— inability to import goods exactly as planned due to restrictions;
— sudden changes to local government/processes and procedures that can be directly linked to bureaucracy.

Future considerations

Infrastructure was identified as being of paramount importance for Western companies operating in India and may affect the viability of long-term businesses outsourcing to the country.

— adequate power supply is a main concern;
— few steps, if any, are being taken to identify reasons for inadequate power supply;
— if India’s development is to progress, a reliable power is essential.
Whilst rents appear to be low on a global scale, the underlying reasons for relocating to India are based on the business itself and not restricted to cost savings provided by real estate.

PREFERRED LOCATIONS FOR CORPORATE REAL ESTATE

The literature has reported the cities that are preferred locations and indicated intra-city locations that are places where corporate real estate for outsourcing is located. This research investigated the current preferences in the quality of real estate as well as locations within cities in India. Respondents were asked to rank their quality of real estate preference on a scale of 1 to 5 for (a) ‘Grade ‘A’ spaces’, (b) ‘Grade ‘B’ spaces’ or (c) Other. For the location demand, the respondents ranked (a) ‘CBD location’, (b) ‘suburban location’ or (c) ‘Other’. The results are summarised in Figure 4 and confirm that ‘A’ Grade spaces in the suburban locations are preferred. This indicates that the original trend of opening up offices in the CBD area was reducing. Extending this investigation an open ended question as to reasons for this revealed the following:

—Depends on kind of use. Suburban areas ideal due to lower real estate costs;
—Access to labour 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; and
—Suburban location, larger corporates and ITES sector.

In the view of participants the suburbs are increasingly becoming the favourite destination due to modern facilities in terms of the building and parking, and also for government subsidies. They were also of the view that IT and ITES sectors preferred suburban locations to set up their offices and CBD was more likely to be looked into by finance, legal, retail and young employee-based companies.

Figure 4 Preferred locations for corporate real estate can be found at the end of the article

DISCUSSION AND ANALYSIS

A key question for this research has been to identify which factors have been the most important for Western companies outsourcing their organisational activities to India with supporting information as to what type of activities are involved. The responses showed that information technology (IT) and information technology enabled services (ITES) like business process outsourcing, back office and call centres were the most likely types of business activities being relocated to India. The primary reason was the availability of low-cost, skilled, English speaking people, where India has a definite advantage over the other low-cost countries like China and Philippines. Business process service levels were also one of the factors considered by companies locating these operations in India, real estate costs and government incentives were not as important in the decision. However, these were considered a bonus.
Although service levels and infrastructure have been reasons for business outsourcing to India most of the participants expressed concerns whether the capacity of present infrastructure was being stretched. The provision of back-up services was now considered as a possibility in acquiring new corporate real estate. Consistency of service and infrastructure are critical factors and India may need to consider improving infrastructure to Western standards if it is to maintain its competitive attraction. If not, Western companies will consider locating in other countries where infrastructure is maintained to levels more acceptable to them, and India will lose its current influx of foreign investment, which in turn is providing investment in Indian corporate real estate.

A second key question related to the quality of workspaces and locations that were most sought-after by firms for their corporate real estate, and the reasons behind this decision. Most participants identified that companies initially starting up did so in the CBD area. However, suburbs are now developing as preferred locations. For example, Bangalore, Delhi, Mumbai, Hyderabad and Chennai all contain ‘A’ grade areas in the CBD, although preferred locations are now moving towards the suburbs. Reasons include the availability of cheap and large tracts of land, close proximity to city, government grants and sponsored industrial estates, locational issues for workforce access, good parking facilities and availability of large floor plates.

The responses highlighted that investment in real estate in campus style facilities is being considered when they become an asset on the company’s balance sheet. The responses also confirmed that companies, instead of occupying space in different locations, prefer to consolidate operations into one facility. Developers are offering built-to-suit facilities provided the client signs a long-term lease, with the most popular lease term being 3_3_3 years. As well as consolidating their business units, firms have improved productivity and taken the advantage of the synergies possible through employee proximity.

Some of the participants also referred to earlier trends in real estate selection, which originally focussed on the primary cities. However, participants indicated that due to decreases in availability of human resources in the primary cities, secondary cities like Cochin, Jaipur, Mysore, Pune and Gurgaon may receive greater consideration in the future.

**CONCLUSION**

This research addressed two key questions. Firstly, the factors important for Western companies’ outsourcing their organisational activities to India, and secondly, the effect of that business outsourcing on corporate real estate locational requirements in India. Overall, the results confirmed that low-cost English-speaking labour force is the foremost factor important for corporations in deciding to business outsourcing to India. Other factors that influenced the decision to outsource included real estate, government costs, infrastructure, and service levels. However, these factors were only considered an added bonus and less important than the labour force availability.

This study confirmed that no country is competing directly against India, at present, for outsourcing of back office, business processing outsourcing, call centres and software development companies, since countries such as the Philippines and China cannot offer the large number of skilled English-speaking people as India. However, it should be noted that for hardware and manufacturing works China and other countries are preferred.

The effect of business outsourcing on Indian corporate real estate confirmed the growing preference for Grade ‘A’ accommodation in suburban areas as the key area for corporate real estate locations.

**FUTURE RESEARCH**

Business outsourcing to India has matured the real estate market, telecommunications have improved and English fluency in India is flourishing. Corporate real estate practice in India has rapidly evolved continue in the future. To date this has been driven by the presence of large, multinational corporate real estate service providers as a result of India’s promotion as a business outsourcing haven. Their presence appears to have had an impact on the development of local corporate real estate management and service providers and the long-term sustainability and development of indigenous corporate real estate practice.

In addition, further research is required into the evolution of Indian corporate real estate practice in order to meet continuing demands that corporate real estate operates as an organisational strategic resource — both for Western companies involved in business outsourcing and Indian companies seeking to meet those business outsourcing demands.

**REFERENCES**

(5) Literature definitions of corporate real estate, such as that in Kenley, et al. (11), assume a Western company perspective. Their business outsourcing decisions reduce their corporate real estate needs in their originating counties, but have two consequences in the destination countries. Where a Western company relocates in-house business processes to low-cost countries they have just provision. Where business processes are conducted by local companies for Western companies this creates a corporate real estate need for those local companies. Both consequences impact on commercial and corporate real estate industries in the destination country, which for the purposes of this paper are taken as largely synonymous. This paper begins to address the two consequences on Indian corporate real estate.
(14) See 12
(17) See 1
(21) See 3
(22) See 20
(23) See 1
(24) See 20
(25) See

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**Figure 2 Business Activities outsourced to India**

Type of Business activities outsourced to India

![Business Activities outsourced to India](image_url)
Figure 3 Factors favouring business outsourcing to India

Factors favouring business outsourcing to India

Grading

Factors
- Real Estate Costs
- Low-cost Labour
- Skilled People
- Government Infrastructure
- Service
- Other

Figure 4 Preferred locations for corporate real estate

Preferred location for Corporate Real Estate

Grading

Type of location
- Grade 'A' Spaces
- Grade 'B' Spaces
- Location
- Suburban Location
- Urban Location
- Others