Real value in a changing world

September 2012

BPO/SSC: the sector speaks
on optimal office solutions to suit business needs in Poland

Introduction

This publication is the result of a joint research project conducted by Jones Lang LaSalle and Skanska, who, when collecting materials, have co-operated with the Association of Business Service Leaders in Poland (the ABSL).

The main goal of this report is to identify the needs of companies from the modern services sector with regard to office buildings in order to adjust developments constructed in Poland to the requirements of that industry.

The basis for this analysis was a survey carried out among 30 companies from the modern services sector, as well as meetings and interviews with representatives of companies operating in the BPO/SSC/ITO sector.

The authors of this publication would like to express their sincere thanks to all respondents for the time spent on filling out questionnaires, as well as for all comments and the highly beneficial meetings.

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We also encourage you to watch a movie that summarizes this report at:

www.officefinder.pl

www.joneslanglasalle.pl

officefinder.pl

The office space leasing process

In the last couple of years, Poland has become the leader in terms of size of employment in the modern BPO sector in CEE and an important spot on the global offshoring map. According to recent estimates, by the end of 2012 the industry will employ approximately 100,000 people (companies with foreign capital only); the average annual increase in the number of employees in this sector between 2008 and 2011 was about 20%.

Therefore, companies providing outsourcing services or which are establishing their service centers in Poland have become the main demand driver for office space in the country's major cities. In addition to Warsaw, the most active markets are Kraków, Wrocław, Poznań, Tri-City, Katowice and Łódź. Increasingly, Szczecin, Lublin, Toruń, Bydgoszcz and other smaller Polish cities are also competing for tenants.

The process of searching for office space is complicated, requiring professional knowledge and a very good understanding of the office market. It is especially important with regard to companies that until now have had no contact with the office real estate market in Poland and are deciding where to locate their registered office in this country. Nearly 93% of companies in the BPO/SSC industry use the services of real estate consultants. Respondents that took part in our survey valued real estate consultancy firms mainly for their very good market understanding and also because such agents make it possible for firms to obtain better financial conditions, which is crucial for businesses that are focused on reducing costs.

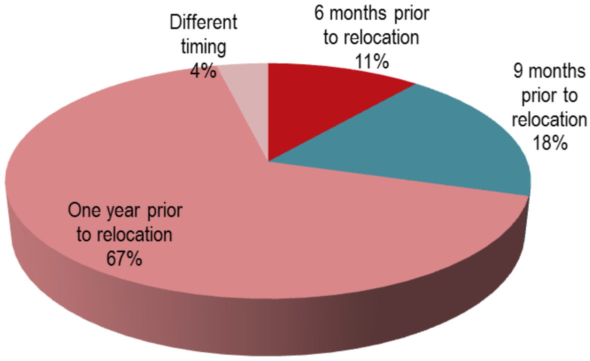
During interviews with tenants, we showed them the below presented graphic illustrating the different stages of the office search process. The respondents were asked to say which three steps are most difficult for them. The majority of them pointed to the creation of short-lists, lease and financial terms negotiations and transaction completion. Those are the key elements for tenants. However, it should be noted that in order to get to that stage, a series of steps must first be completed and the market has to be studied in detail.

The organization of the office search process

Source: Jones Lang LaSalle

The survey shows that 67% of companies begin the office selection process one year prior to the anticipated date the new location will start its operations, but some 29% of companies begin nine months or less before that date. This is often too short a period of time to find a suitable space. It should be also noted that the leasing process has several stages and, depending on the size and complexity of the project, the time needed can vary significantly.

How many months prior to the relocation/opening of a new office do you start the site/location selection process?



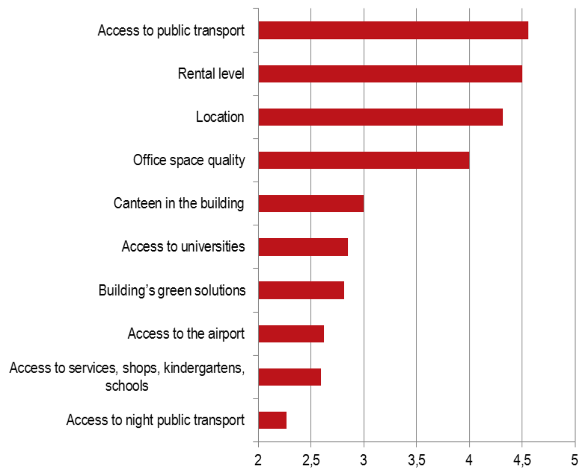
Source: Jones Lang LaSalle, Skanska

With regard to the process of leasing office space, the interviewed companies stated that the shallowness of the market is a major barrier. Specifically, this refers to the availability of office lease options on a given market or in a particular part of a given city. One should note that the largest Polish markets (apart from Warsaw) are in a stage of dynamic growth and in the course of time they will be able to offer a wider range of lease options.

Generally, if a lease agreement and its guarantees are well formulated and the technical standard of the building meet the tenant's needs, the interviewed companies see no problem in signing a lease agreement for office buildings developed by local developers with no international experience. This is particularly important for smaller Polish cities, which are dominated by local players developing office projects.

When choosing a new office, companies put the main emphasis on: access to public transport, rental level, location, and office space quality. Less important were: access to night-time public transport; access to services, shops, kindergartens and schools; access to airports; the building's green solutions; access to universities; and the canteen in the building.

Which elements are the most important for you when selecting a new office?



Source: Jones Lang LaSalle, Skanska

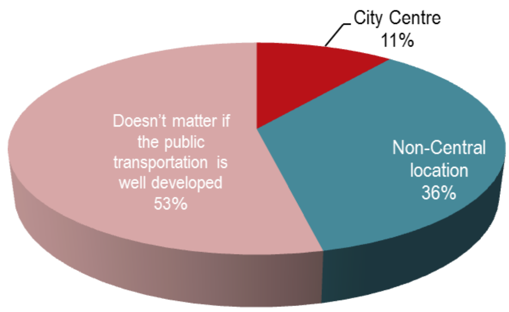
However, one must remember that around 12% of BPO/SSC centers in Poland operate 24 hours a day, serving customers from outside Europe. Access to night-time public transport will be a key issue for those companies, despite the low rating in the table presented above.

Location is among the three main aspects that are most important for tenants. For more than 50% of the companies it is not of great importance whether the location is in the city center or outside of it, provided that there is well-developed public transport.

One third of them, however, strongly prefer locations outside the city center, mostly due to the cost factor. Only 11% of companies want to be located in the central district, in order to facilitate commuting from different parts of the city.

In general, companies showed commitment to location, both in terms of access to the workforce and from the cost point of view, meaning expenditures on office furnishings, especially IT infrastructure. Additionally, companies incur expenses for numerous changes in fit-out. One of the firms that took part in the survey has made 14 internal moves in just one year.

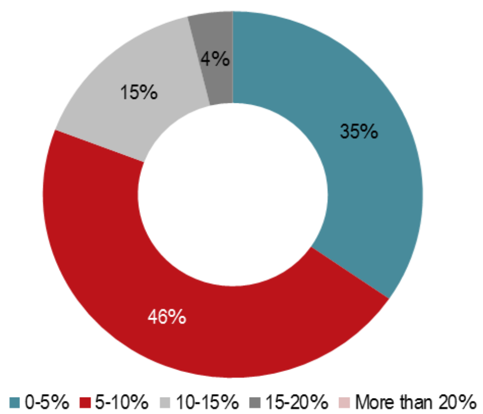
What is your preferred location?



Source: Jones Lang LaSalle, Skanska

Bicycle transport is becoming increasingly popular. In the spring to autumn period within almost half of the surveyed companies about 5%-10% of employees commute to work by bicycle. A lack of adequate infrastructure in the office is often a barrier preventing increases of the number of staff cycling to work. The problem is mostly about bicycle racks and showers. There are many examples on which we can model ourselves. In the Netherlands, for example, 30% of employees choose a bicycle as a mean of transport. The situation in Poland may improve due to growing city bike networks as well as new bicycle paths.

What percentage of employees cycle to work during the spring to autumn period?

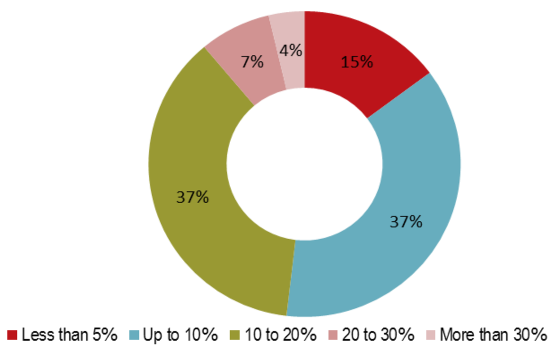


Source: Jones Lang LaSalle, Skanska

Functional and technical requirements

Companies from the BPO/SSC sector operate primarily in open-plan offices. Most tenants have separate conference rooms in their offices, up to a maximum of 20% of the total area. Nearly half of the interviewed companies prefer to have what are referred to as ‘focus rooms’, which are small rooms for individual or group work.

What is your preferred share of conference rooms (as a percentage of total floor area)?



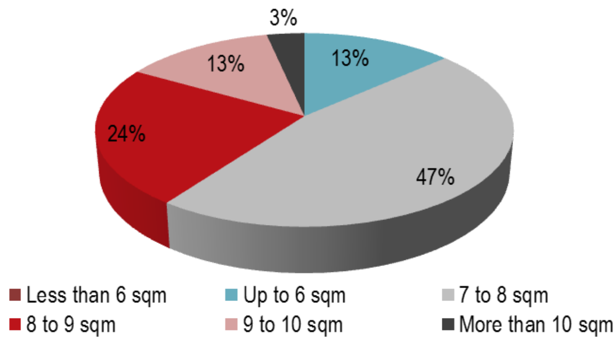
Source: Jones Lang LaSalle, Skanska

Almost half of the surveyed firms prefer a density of 7 to 8 m^2 per employee, with a further 24% choosing 8 to 9 m^2 per person working in the office.

In a typical regular office, for example a company’s headquarters, this ratio usually ranges from 11 to 15 m^2, which means that in a standard service center sometimes twice as many people work in the same space.

A high floor density level might cause problems with ventilation. 38.5% of companies have higher standards for ventilation than 30 m^3/hour/person as required by the law. 61.5% of respondents believe that they need only the minimum air inflow.

What is your preferred density in the office (m^2 per person)?



Source: Jones Lang LaSalle, Skanska

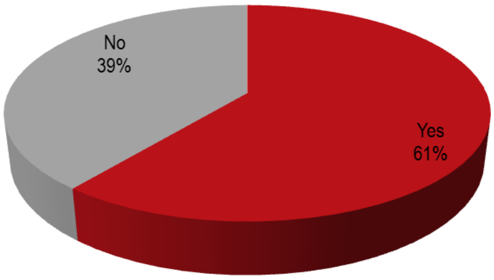
Companies from the BPO/SSC sector prefer air conditioning systems based on fan coil units and most of them would like to be able to regulate the base temperature by +/-3 C. Opinion as to whether wall mounted air-conditioning control units should be able to change air-inflow speeds is split almost equally. Interestingly, we have also heard opinions that the air-conditioning should be controlled by the building management system (BMS) in order to prevent employees from manually controlling the temperature in rooms.

To sum up, buildings for tenants from the BPO/SSC sector should be prepared to provide more efficient air exchange system, as well as efficient air-conditioning. Therefore, office buildings should be above all flexible, in order to ensure the comfort to their tenants.

When adapting a ventilation and air conditioning system, one must remember that it should not be too efficient. A system which works more than is necessary will cause an increase in electricity consumption and obviously will translate into growth in the office’s operating costs.

In addition to mechanical ventilation, there is also natural air inflow. The majority of surveyed companies from the BPO sector want to have the possibility of opening windows in their offices, even if they lose some control over the air conditioning system. Tilt windows work especially well in the period characterized by moderate temperatures.

Would you consider openable windows in your office space, taking into account the higher investment cost (additional sensors and window controls) and reducing the level of control of the entire mechanical ventilation system, in return for natural ventilation?



Source: Jones Lang LaSalle, Skanska

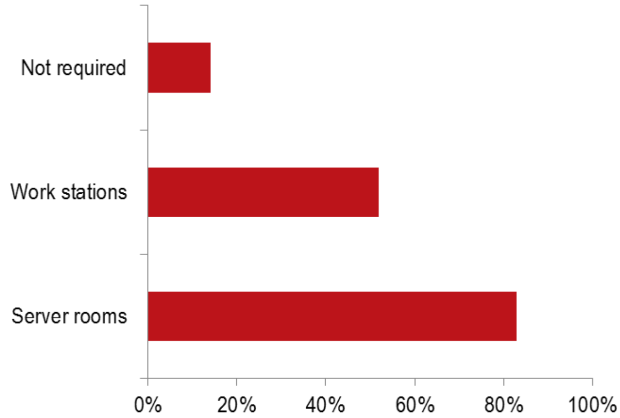
Majority of the companies have questions about openable windows in their RFPs. However, often these are not issues related to ventilation, but rather to security solutions, on which great emphasis is placed.

Security is why 43% of companies require that lifts from their office's underground parking run only between the car park and ground floor, so that every person entering parking is checked by the front desk before a lift takes him/her to the upper office floors. It is important to pay attention to this aspect in the design phase of office building development, since such a tenant's requirement may be impossible or difficult to meet after a building has been constructed.

Safety also includes energy independence. Companies from the BPO/SSC sector demand that power supply is secured by two independent switching stations. What happens in the event of a total power failure? 83% of firms require electricity provision by a generator to their server rooms. In addition, more than a half of respondents prefer maintaining the functionality of their workplace in the event of an external power supply breakdown. An important factor is that some tenants also require a second back-up generator in case of any failure of the first one. Therefore, the preparation of an appropriate place for generators is essential at the stage of planning the building.

In addition, in case of a failure of the external power supply of the building, the previously mentioned openable windows may turn out to be a good solution, as during a breakdown they can be used to provide natural ventilation. Otherwise, if work stations have to function normally, it will be necessary to also maintain an emergency power supply for the mechanical ventilation system.

Does the power supply need to be backed up by a generator (taking into consideration that typical power supply is secured by two independent switching stations)? If it does, for which parts of the office should the electricity be provided?



Source: Jones Lang LaSalle, Skanska

As regards work stations, 40% of companies use more computer equipment than typical (i.e. more than one LCD per work station). More than 70% prefer category 6 in terms of cabling standard. The majority of firms require one or two RJ45 sockets, and more than a half want two 230V sockets provided for each work station.

For more than 50% of companies it does not matter whether a building holds a green certificate such as BREEAM, DGNB or LEED. However, during the interviews, companies suggested that factors that are included in the building certification process are desirable to them. Almost all the surveyed companies are also involved in CSR activities, which, if not now, surely in the near future will translate into a desire to invest in green buildings and promote sustainable development.

During the interviews and in the comments on the survey forms we learned that there is a need for tenant education in terms of green solutions and sustainable development. We believe that the solutions offered by green buildings and the creation of friendly working conditions will become standard on the market.

Problems arising when using an office

From our conversations with tenants and analysis of comments in the survey, we have received information about tenants' problems that occur while using leased space. The companies had most problems with air conditioning and they pointed specifically at its low efficiency, problems with cooling aimed directly at employees' heads or an insufficient number of wall mounted control units in open spaces.

Elevator throughput is another problem, as elevators were not always able to serve an appropriate number of passengers. Please note that more people work in buildings designed for companies from BPO/SSC sector than in typical office buildings. There were also problems with elevator service, which was not able to repair the lift quickly after accidents or breakdowns, which caused additional difficulties.

Problems with falling quality of the technical support after the sale of an office building to another owner were also reported by our respondents.

In the case of centers employing mostly women (such as accounting centers), problems with insufficient number of women's toilets were encountered.

Conclusions

There are very favorable development prospects for the modern services sector in Poland, which is why whether office developments are tailored to its needs is currently very important. One can say that some office buildings in major Polish cities are adjusted to the sector's needs. However, because the office market is developing in continuously smaller Polish towns, and because of the aging of office buildings, buildings will be more frequently subject to renovation. That is a good time to adapt buildings to the BPO/SSC sector's requirements. The key word is above all flexibility, both from the functional and technical point of view.

It should be assumed that even twice as many people will work in an office building for companies from the BPO/SSC/ITO sector as in a typical office building designated for roles such as a company's headquarters. With such assumptions, one must take into account lift capacity, air conditioning and ventilation adaptation, which have to be flexible in order to meet the requirements of even the most demanding tenants. Additionally, buildings should be power independent, provide full functionality 24 hours a day, have an adequate number of toilets and infrastructure enabling commuting to work by bicycle (bike racks and showers). All this constitutes office quality, which has been defined as one of the four most important aspects for tenants.

Green buildings are becoming increasingly popular, thanks to many solutions offer a friendly working environment. We believe that green buildings are the future of the market, and the role of developers and consulting firms is to educate tenants in terms of sustainable development: our study found that for more than half of the firms surveyed it is currently an irrelevant issue.

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