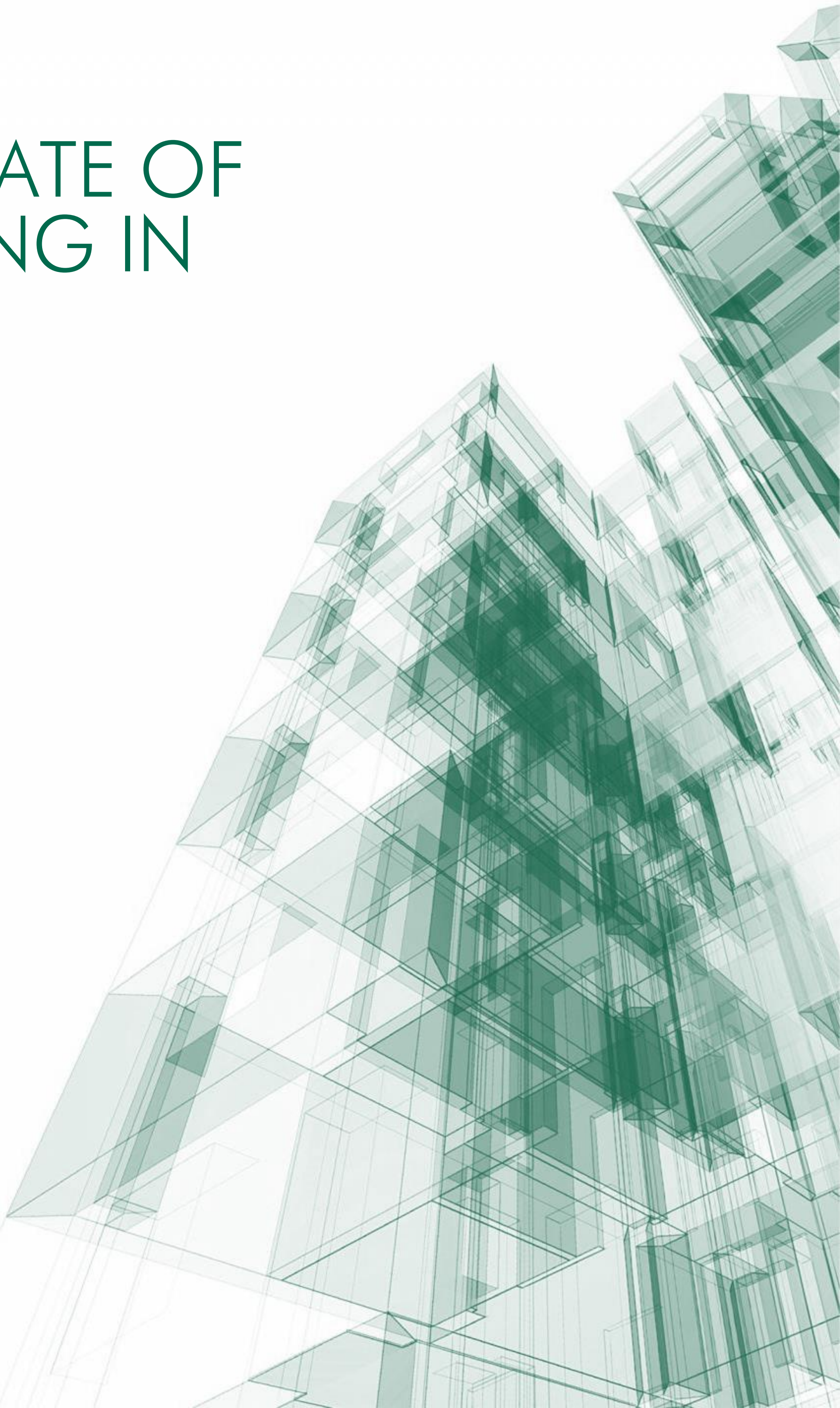
THE REAL ESTATE OF OUTSOURCING IN ROMANIA

CBRE RESEARCH | 2015



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Outsourcing industry in Romania offers employment to over 67,000 people within 215 companies, that have over 310 offices covering an office space of half million sq m spread throughout Romania.

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INTRODUCTION

Outsourcing industry in Romania is big. How big? According to ABSL (Association of Business Service Leaders) more than 60,000 people work in this sector and that the market is growing rapidly. We know that Bucharest is ranked 8th in Europe as a preferred outsourcing destination according to Tholons 2015, while Romania is in Top 20 in the world as an outsourcing destination according to A.T. Kearney (up 7 places compared to 2013 index). In terms of real-estate, more than 50% of registered office sector transactions are done by companies in outsourcing, whether this is IT, business processes or human resources companies.

What we wanted to find out is how the outsourcing business shapes the real-estate market and vice versa. This report started out as an in-depth one-by-one count of the outsourcing companies present in Romania and grew to be a X-Ray of the real-estate of outsourcing.

The following report will try to provide answers to questions like:

- What type of outsourcing is done in Romania?
- What are the real-estate solutions chosen by outsourcing companies?
- What are the regional hotspots for development of this industry?
- What should the companies forecast in terms of budgets and timing when sourcing out an office in Romania?
- What is the short term future of outsourcing sector in Romania?

Looking ahead it is clear that the outsourcing business in Romania is a field that requires a high level of attention and we will continue to present the trends, changes and movements within this sector on an annual basis.

METHODOLOGY & DEFINITIONS

For this report we started out really simple – with an excel file and filling in, step by step all the details of outsourcing companies in Romania. While some of these companies have a strong PR presence and information is relatively easy to find, others are focused on the business operation with few details reaching the surface.

Once this list was complete, we had a sit-down with more than 10 members of the CBRE team to really get this information to a high-level of accuracy. In addition we have involved the Building Consultancy department, as well having discussions with direct representatives of outsourcing companies. In many ways, this report is a truly multi-disciplinary endeavour, highlighting the strong level of collaboration within CBRE's numerous departments.

Business Process Outsourcing (BPO) – a specialized organization that provides specific business functions (or processes), usually non-production ones to third parties.

Shared Service Centre (SSC) – a separated part of an enterprise that provides a service to an organization or group where that service had previously been found in more than one part of the organization or group. The funding and resourcing of the service is shared and the providing department effectively becomes an internal service provider.

Knowledge Process Outsourcing (KPO) – a form of outsourcing, in which knowledge-related and information-related work is carried out by workers in a different company or by a subsidiary of the same organization, which may be in the same country or in an offshore location to save cost. This typically involves high-value work carried out by highly skilled staff.

Information Technology Outsourcing (ITO) – a form of outsourcing, where Internet related work (such as programming, software design) or IT infrastructure is done by a third party company.

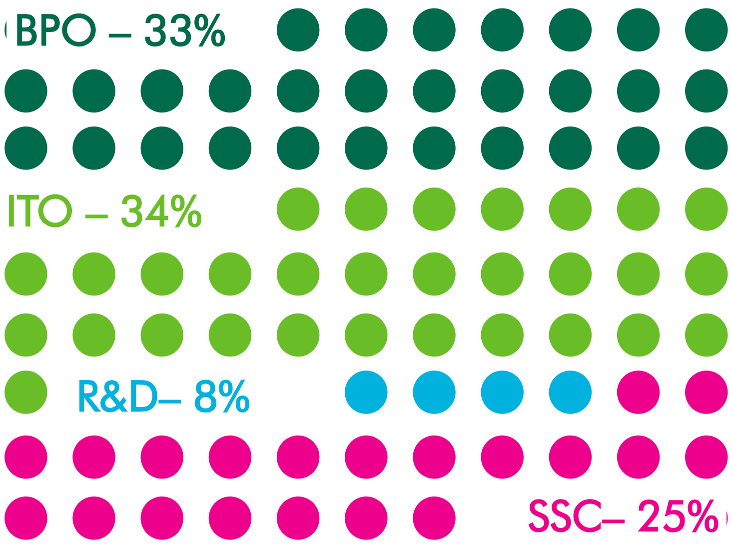
Research & Development (R&D) – a separated part of an enterprise that provides highly skilled services and / or process to an organization or group where before these services were not previously centralised.

OUTSOURCING IN ROMANIA

BY EMPLOYEES

In our calculation around 67,000 people are working within BPO, SSC and ITO in Romania, with at least another 5,000 new jobs in planning to be occupied within the next 12 months. Alongside software and telecom companies, outsourcing is one of the biggest employers within the white-collar segment in Romania.

FIGURE 1: OUTSOURCING SECTORS BY NUMBER OF EMPLOYEES



Source: CBRE Research

OUTSOURCING IN ROMANIA

BY BUSINESS SECTOR

BPO and ITO sector are the most lucrative segments within the outsourcing business in Romania, each with around 22 – 23,000 employees, pan-Romania. A relatively new branch, SSC are starting to gain momentum and have under employment around 15,000 employees. Research & Development, due to its high-skill level of operation is a relatively small sector, around 5,000 employees. On average, an outsourcing centre in Romania has 320 employees, with BPO's having almost 500, while ITO's around 270.

More than half (47%) of the analysed companies are focused on Application Development & Maintenance, followed by companies dealing with a multitude of processes, including Human Resources, Finance & Accounting, Support Services. Pure contact centres (call centres) account for 12% of the companies analysed. Still, as the nature of the business entails large operations, these companies employee over 10,000 people (15% of total).

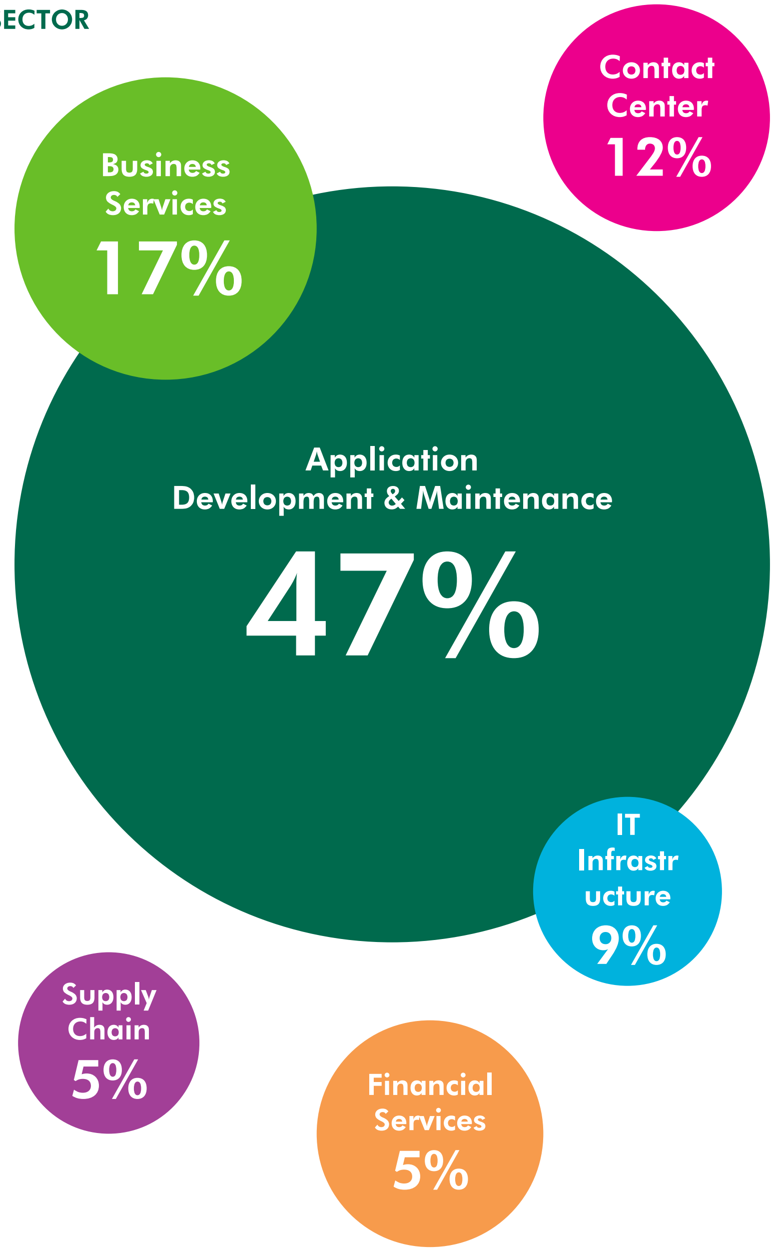
The presence of so many ITO's is not random – two factors are at play:

- High number of graduates with programming / IT skills, in all major regional cities – over 20,000 graduates with technical skills on a yearly basis.
- The number and value of state incentives awarded by the Romanian Government to the IT industry. This includes 100% exemption on income tax for IT employees and public financing for development of IT innovation parks.

Software and outsourcing companies alike can benefit from state aids for regional development, job creation and investment support for new technologies creation, as well as 50% tax deduction for R&D related cost of operations, according to ANIS (Employers Association of the Software and Service Industry).

While the last couple of years the exposure and size of outsourcing companies has increased substantially, these companies are very much present as early as 1991. Indeed, in the last 4 years, the number of SSC has almost tripled in size, while a majority of other outsourcing companies expanded their presence.

FIGURE 2: NUMBER OF OUTSOURCING COMPANIES BY BUSINESS SECTOR



Source: CBRE Research

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OUTSOURCING IN ROMANIA

BY COUNTRY OF ORIGIN

In terms of country of origin, USA is the number 1 supplier of outsourcing companies in Romania. No less than a quarter of companies come from USA, not surprisingly considering that over 90% of the urban population speaks English, thus employees with this language skill are numerous. In addition, the economic and geo-political partnership between USA and Romania has contributed to such a massive presence of American companies within the outsourcing sector.

Romania comes second, as local companies, mostly ITO's, have grown in size and reputation, thus they have the capacity to serve international clients, on a truly global scale. Two European countries are incubators for such companies: Germany, a leader in terms of SSC's in Romania, and France.

While ITO's tend to be Romanian in origin, BPO's mostly come from USA and Romania. SSC's and R&D's are American or German. Numerous other countries are present in Romania via outsourcing companies, as varied as Japan, Philippines, Finland, Brazil or Austria, but the total number is generally small, 1 to maximum 5 companies per country.

IAOP issues yearly a world-wide renowned ranking of Top 100 outsourcing companies. This ranking looks at the most important companies in the world. In Romania a total of 20% of these firms are present. The exposure of international brands in our country is limited, as big-size companies tend to have an Asian presence, rather than Eastern European geography.

A quarter of outsourcing companies present in Romania come from USA and another quarter from Germany, France and Italy.

FIGURE 3: MAIN COUNTRY OF ORIGIN BY TYPE OF OUTSOURCING

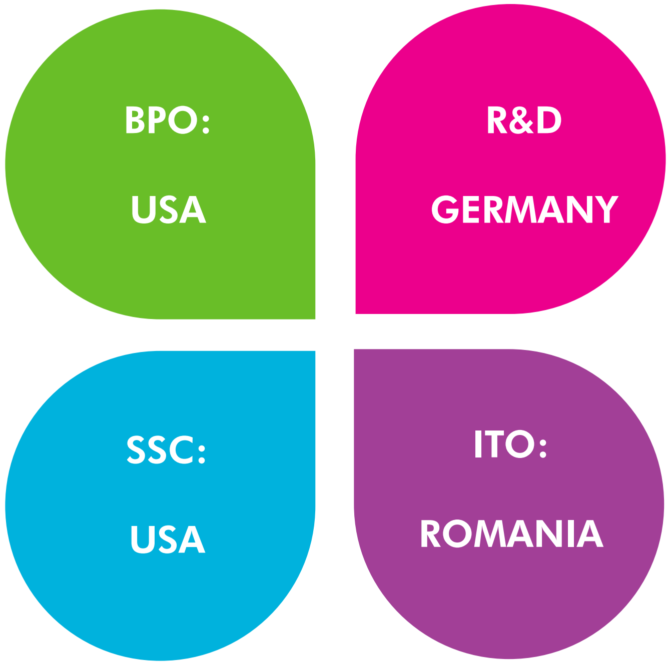

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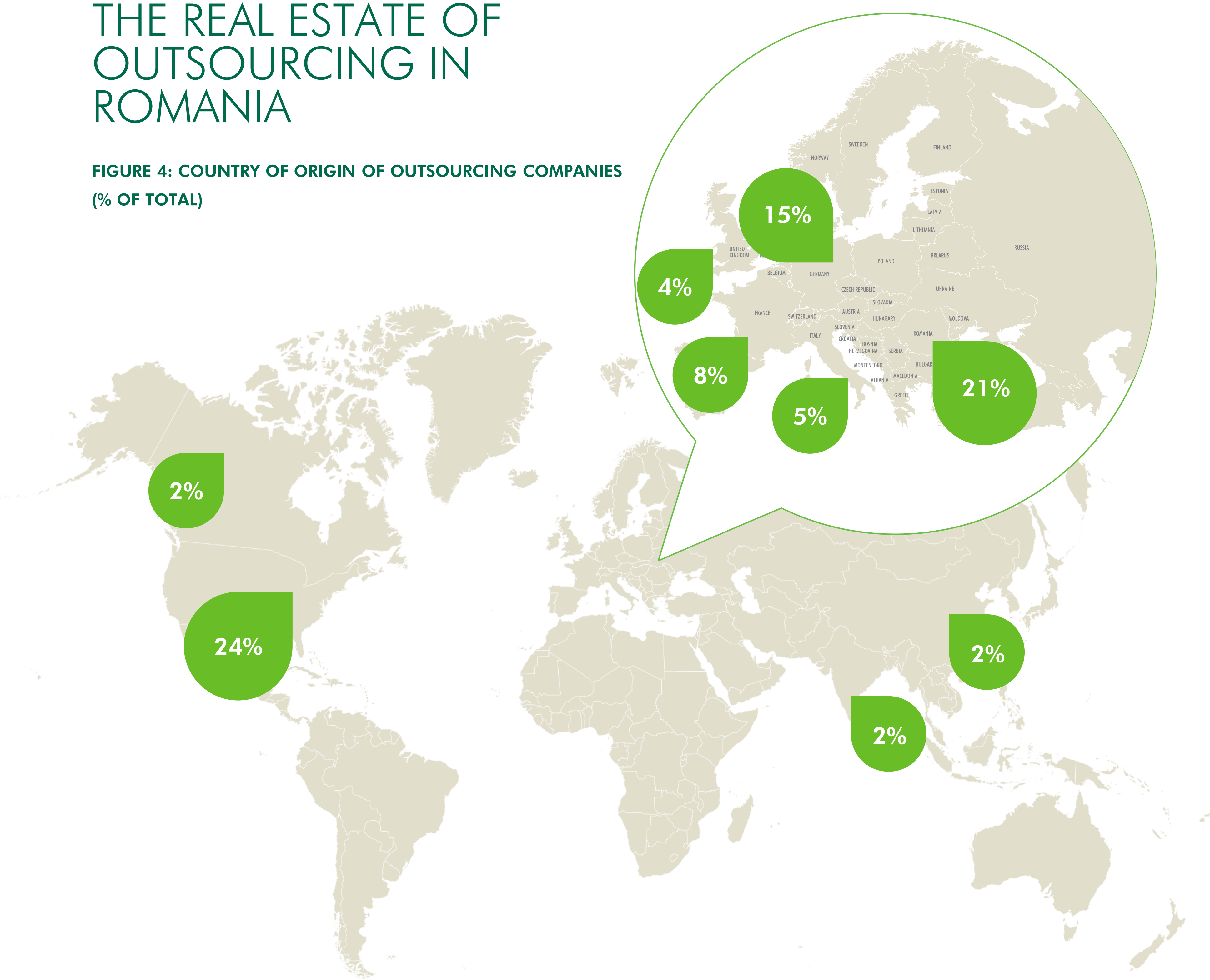
FIGURE 4: COUNTRY OF ORIGIN OF OUTSOURCING COMPANIES (% OF TOTAL)



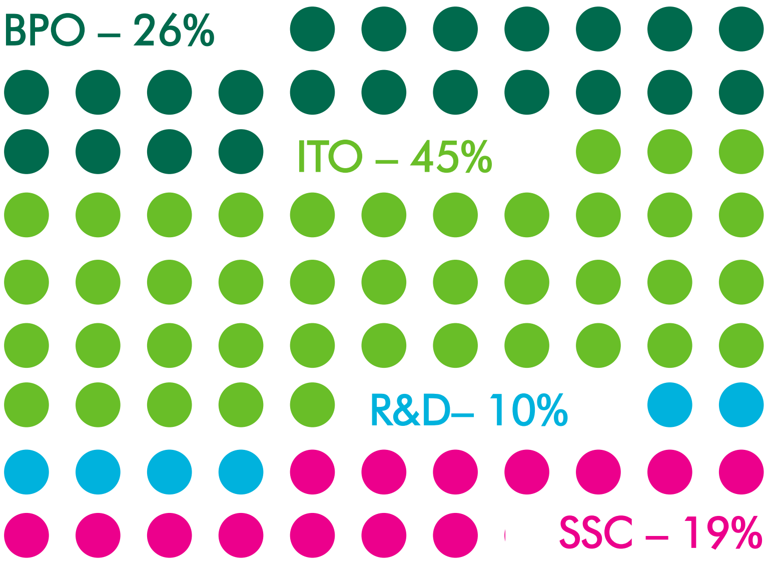
REAL ESTATE OF OUTSOURCING

BY SIZE

In total we have counted close to 215 outsourcing companies in Romania, which in turn have over 310 offices in Romania.

The total modern office stock in Romania is of 3.1 million sq m and outsourcing companies occupy more than 500,000 sq m.

FIGURE 5: OUTSOURCING SECTORS BY NUMBER OF OFFICES



Source: CBRE Research

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REAL ESTATE OF OUTSOURCING

BY CLASS

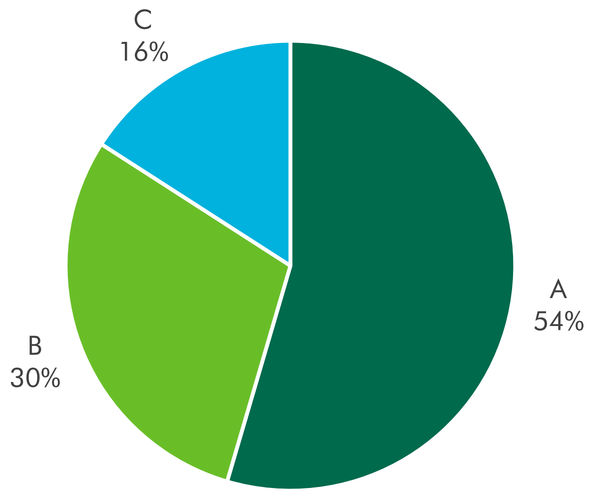
In general, the class of the offices occupied by a company tends to be similar regardless of city. If for example, one company has its headquarters in a Class A office building in Bucharest, in general it will seek to occupy a building of similar quality in the other offices, located in regional cities. It is evident that a push for upgrade of occupancy has happened in the last 2 - 3 years, with companies taking advantage of the market conditions and availability of superior quality offer for their new offices.

Software and SSC's generally occupy class A premises - over 75% of the companies analysed have the residency in such a building.

While R&D centres require a certain type of technical specifications for their premises, in some cases these are integrated within manufacturing premises, leading to a downgrade in terms of class. As such, only about 50% of them are within class A premises, rest in class B, with a minority in class C buildings.

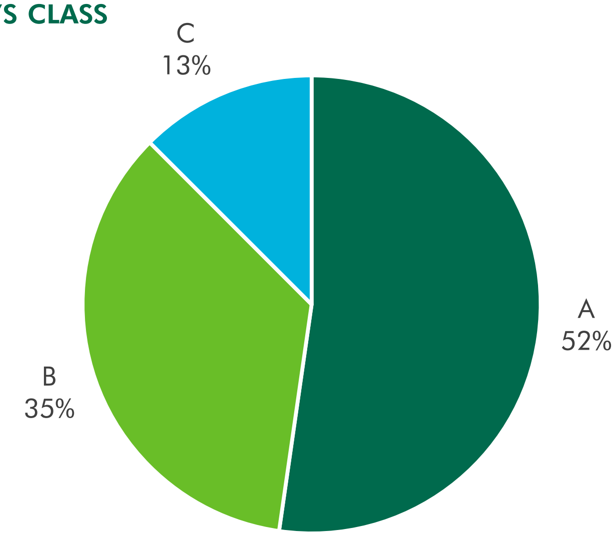
BPO's are quite diverse in terms of chosen office premises - up to 50% of them are within class A premises, while the rest tend to be rather in class C, not class B. We would explain this through cost-saving approach and in the case of regional cities through an insufficient and cost-efficient modern office stock.

FIGURE 6: OUTSOURCING OFFICES IN BUCHAREST BY BUILDING'S CLASS



Source: CBRE Research

FIGURE 7: OUTSOURCING OFFICES PAN-ROMANIA BY BUILDING'S CLASS



Source: CBRE Research

DEMAND

As mentioned before, outsourcing companies represent a major driver of the office market, responsible for half of all pan-Romania office transactions. These companies account for some of the biggest deals the market has ever registered, some in excess of 20,000 sq m. Outsourcing companies, alongside telecom companies and software companies, are a no. 1 priority for any developer when looking to create a complete office tenant mix.

If in 2014, Outsourcing Sector represented just 27% of the Total Leasing Activity in Romania, in 2015, this business generated more than half of the activity.

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OUTSOURCING

BY REGIONAL LOCATION

Majority of analysed companies have one or two offices in Romania - generally in Bucharest and one regional city. Some companies (around 10%) have a truly pan-country presence with service provider offices in 3 up to 5 regional cities in Romania. Those with offices in lesser known cities for outsourcing, like Craiova or Galati, tend to have their offices only in these cities. While most companies have went through consolidation of the business operation and occupy a maximum of 2-3 offices in one city, there are extreme cases with up to 7 offices in one city and a total of 13 offices throughout Romania.

As mentioned above, the outsourcing industry in Romania is not necessarily new, with more than two thirds of companies opened the Romanian location before 2011. On the other hand the modern office market in Romania is new, especially in regional cities. This is why a number of companies (approx. 20%) decided to invest in a built-to-suit premise, either in property, or long-term leased from a local developer. This holds especially true for companies with expansion in the period 2006 – 2009, when the market was in short supply and at high rental levels.

In addition we have found some small size offices in tertiary cities like Suceava, Piatra Neamt, Alba Iulia, Targu Mures, Targu Jiu, Ploiesti, Baia Mare. For companies with presence with large regional cities, a small – medium size office in these cities could represent an opportunity, as there is little competition for labour market.

The proportions tend to be similar when looking at the distribution of outsourcing offices by number of employees, with one major exception – the leader position of the capital city is even stronger, as 55% of the total number of employees working in this sector is based in Bucharest.

Majority of outsourcing companies are present in both Bucharest and one, major regional city, like Cluj Napoca, Timisoara or Brasov. With the increase of competition for labour force, some companies are expanding into second-tier cities, like Targu Mures, Ploiesti, Galati or even third-tier cities, like Suceava or Targu Jiu.

20%

OF OUTSOURCING OFFICES ARE OWNER OCCUPIED

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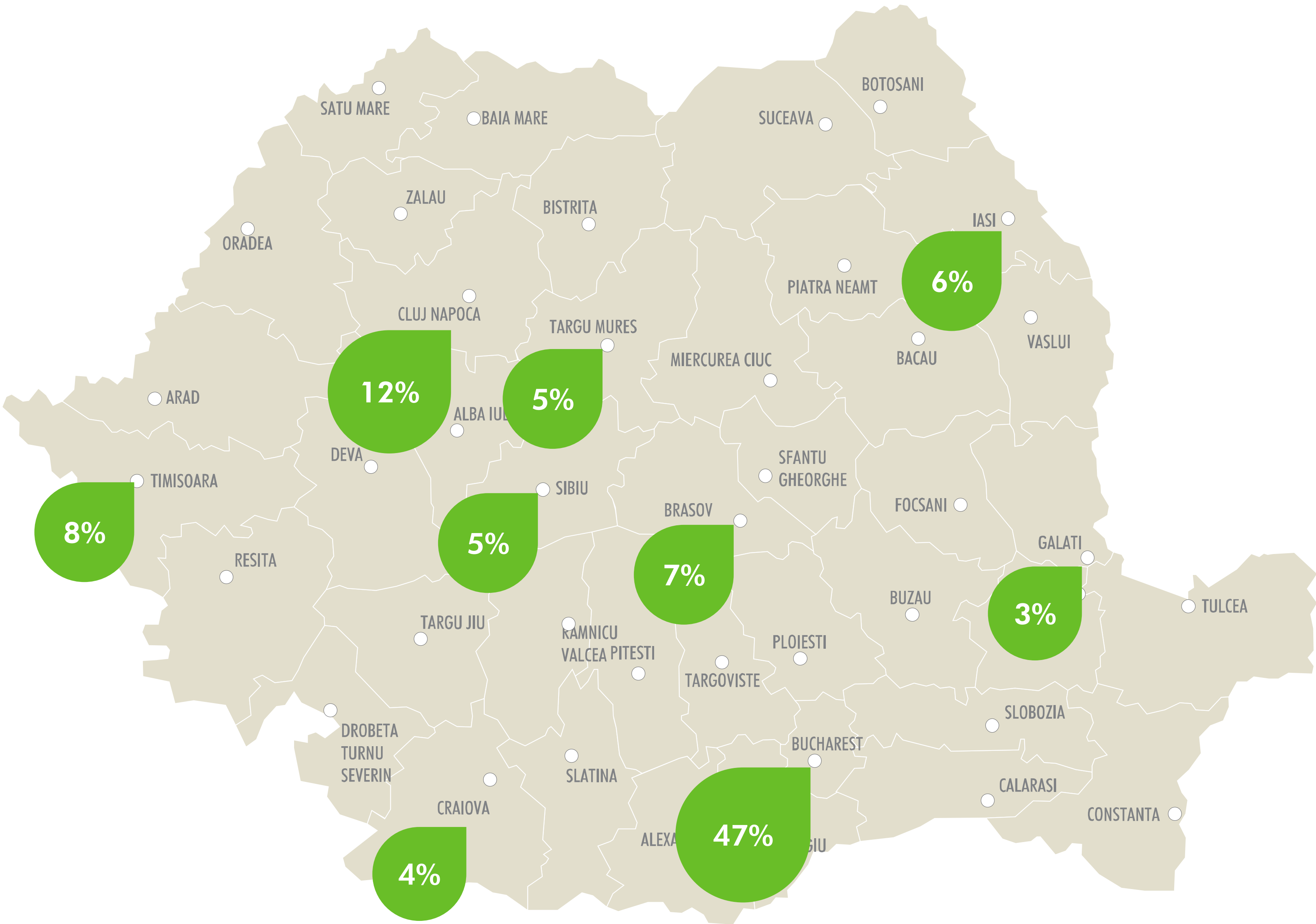
FIGURE 8: OUTSOURCING OFFICES IN ROMANIA (% OF TOTAL NUMBER OF OFFICES)



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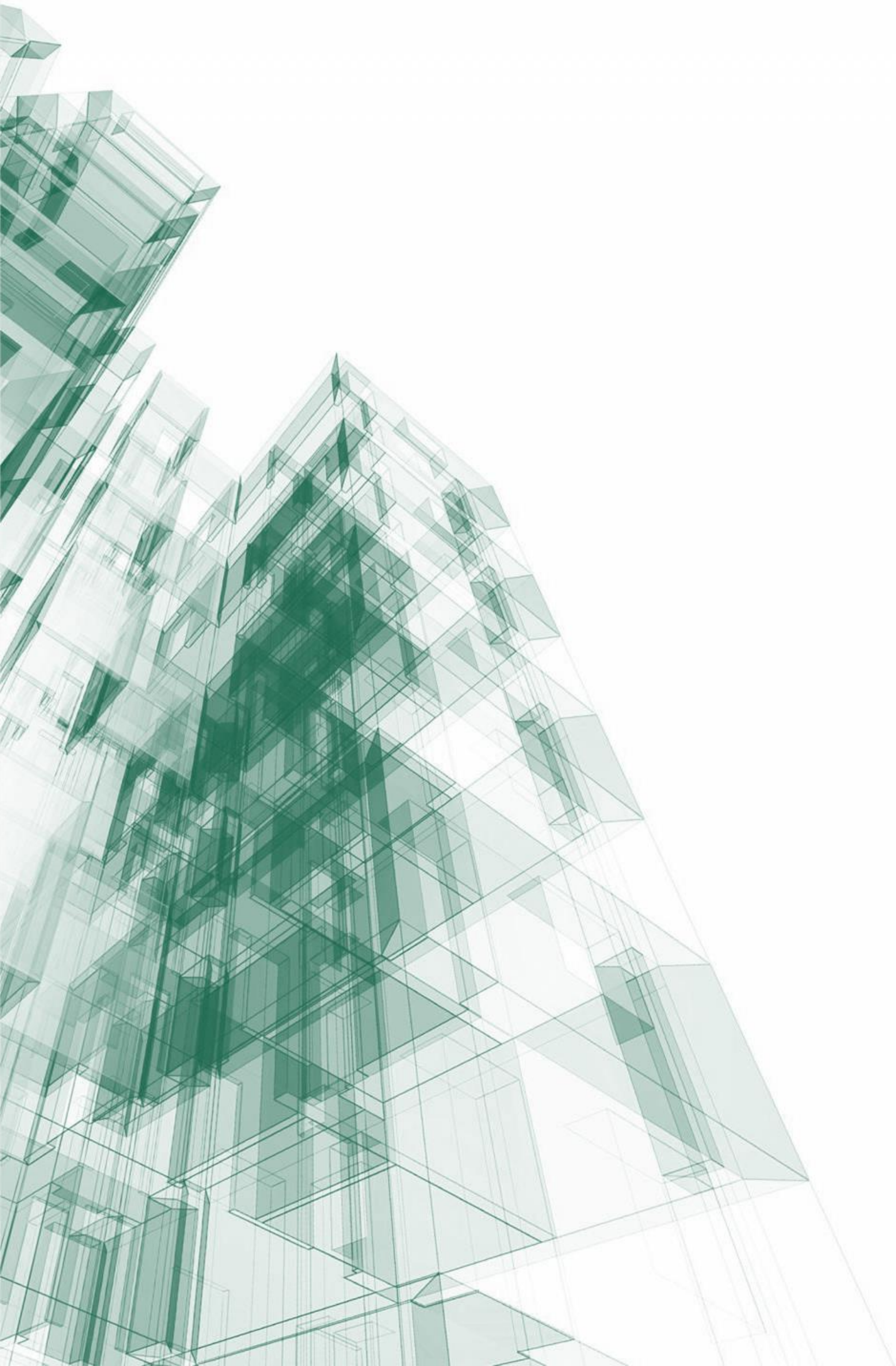

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