# CBRE GLOBAL CORPORATE SERVICES

## BUSINESS PROCESS OUTSOURCING in POLAND

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For the last few years we have observed an increasing trend towards multinational corporations re-locating certain support functions to lower cost locations, often described as Business Process Outsourcing (BPO). This increased activity is driven by a number of factors including the availability of a well-educated workforce, low labour and real estate costs, and taxation and financial incentives. Furthermore, recent accession into the European Union for a number of countries in Europe is expected to have a positive impact on new member states, acting as a catalyst towards increasingly stable economies and standardised legal structures.

Poland is one of the countries being targeted by corporate occupiers in the search for low cost locations. Philips, IBM, Cap Gemini Ernst & Young, KPMG, HP, Citibank, Samsung, GE and Lufthansa have located BPO initiatives ranging from accounting, financial services, call centres, and IT functions in Poland.

This paper considers Poland as a case study for Business Process Outsourcing in Central and Eastern Europe, being one of a number of countries offering potentially attractive locations for corporate occupiers. The map below shows the location of companies that have outsourced functions to Poland

## ECONOMIC OVERVIEW

Poland's economic recovery experienced in 2003 has accelerated during Q1 2004 with real GDP growth for Q1 2003 of 2.3%, rising to 6.9% in Q1 2004. Projected total growth for 2004 is 5.5%.

Major drivers behind this recovery have been growth in exports, 18.8% in Q1 2004, and a 4.6% rise in private consumption contributing as much to GDP growth as exports. Experiences of other countries that have joined the EU suggest further growth in consumer demand can be expected. Industrial output expanded by 19.1% in Q1 2004, primarily driven by manufacturing growth

Inflation has remained stable at 1.7% and interest rates have been held at 5.25% whilst the Polish currency (Złoty) depreciated slightly in Q1 2004. Exchange rates with the US dollar and the euro were 3.82 and 4.78 respectively.

Unemployment and a budget deficit continue to be the two major concerns for the Polish government. Unemployment levels stood at 20.5% in March 2004 whilst the budget deficit has fallen from 40% in Q1 2003 to 27% of the annual plan in Q1 04, largely due to high revenues from Corporate Income Tax. New VAT regulations implemented in the second quarter of 2004 may lead to a temporary slump in budget revenues.

PHILIPS SHARED SERVICES CENTRE, ORION BUILDING, ŁÓDŹ

One of the first multinational corporations to locate large scale outsourced operations in Poland was Philips. On deciding to create a Shared Services Centre for their EMEA accounting operations they analysed numerous locations both in Central and Eastern Europe as well as the Far East. Ultimately, the city of Łódź was chosen due to a combination of key advantageous factors:

- low real estate costs
- low labour costs
- size of local labour market
- number of good universities
- well educated English and German speaking workforce
- financial incentives (grants) made available by the government and local authorities

CB Richard Ellis' Corporate Advisory Services Team acted for Philips in the acquisition of office space for their shared services centre. The requirement was 8.000 sq m, divided in to two phases:

1 - Leasing temporary space for 2 years

2 – Site acquisition and construction of a new building.

Within 5 years Philips will employ over 600 accountants and financial specialists to run their EMEA accounting function.

Poland, like other Central and Eastern European countries, offers a number of advantages to the corporate occupier. For example:

- Low real estate costs. In the current competitive market occupancy costs (rent and service charges) are equal to or below $15 per sq m.
- Low labour costs coupled with surplus supply. Total population is almost 40 million, of which over 50% are below 35. The table below compares Labour costs in Polish cities to those seen in other low cost locations worldwide and the US.

| COUNTRY | US$ COST PER ANNUM |
|---|---|
| India | 6,179 |
| Łódź | 6,180 |
| Kraków | 6,780 |
| Poznan | 6,780 |
| Wrocław | 7,380 |
| Philippines | 7,793 |
| Katowice | 7,920 |
| US | 42,927 |

- Quality staff. There are numerous large university cities providing an output of a highly skilled workforce. The total population of students is in excess of two million, being the 4th largest in the world.
- Financial incentives. Grants are available from the Polish government for companies investing and creating new jobs in Poland and City authorities are willing to exempt investors from real estate taxes should they create new jobs and/or invest in the respective cities.
- Good protection of intellectual rights. The legal system is similar to other European countries.
- Low Corporate Income Tax (CIT) – 19%
- Stable economic conditions. The economy is growing at 6% p.a. (Q1 2004) with a strong national currency.
- Unified Market. Poland joined the EU on May 1st, 2004 bringing with it the removal of trade restrictions, tariffs, quotas, and other protection measures.
- Infrastructure improvements. Large investment in infrastructure is expected with access to structural funds of over $7,5 billion in 2004 – 2006 increasing to $50 billion in 2007-2012.

## POLISH HOT SPOTS

Due to the availability of a quality workforce and low real estate costs the following five centres have been the preferred locations for companies looking to outsource their business processes to Poland:

- Kraców
- Łódź
- Poznan
- Katowice
- Wrocław

| CITY | POPULATION | NUMBER OF UNIVERSITIES (PUBLIC & PRIVATE) | NUMBER OF STUDENTS | UNEMPLOYMENT RATE | AVERAGE MONTHLY SALARIES |
|---|---|---|---|---|---|
| KRACÓW | 757,000 | 18 | 132,000 | 8,8% | US$ 565 |
| ŁÓDŹ | 785,000 | 17 | 95,000 | 19,6% | US$ 515 |
| POZNAN | 577,000 | 20 | 118,000 | 7,2% | US$ 565 |
| WROCŁAW | 640,000 | 20 | 122,000 | 13,2% | US$ 615 |
| KATOWICE | 395,000 | 10 | 70,000 | 8,2% | US$ 660 |

### KRAKÓW

- Approx. 300 km south of Warsaw
- Third largest city in Poland with 757,500 inhabitants
- Total office stock of c. 650,000 sq m. (16% of which is modern office space with 19,000 sq m constructed in 2003)
- Estimated take up in 2003 was 11,500 sq m.
- Vacancy rates in modern buildings of 27% (23% in the city centre)
- Asking rents for prime office: 13-17 euros/ sq m. / mth.
- Rent-free periods and contributions to fit out costs are becoming available in the market

We project that around 42,000 sq m. of office buildings will be developed within the next two years in Kraków and expect rents and vacancies to be stable for the foreseeable future.

### ŁÓDŹ

- 130 km south west of Warsaw, located next to two major national artery roads
- Second largest city in Poland with 800,000 inhabitants (three million within the Łodź' "voivodship")
- Total office stock of c. 118,000 sq m - limited modern space in comparison to other major cities although two developments are under construction
- Estimated take-up for modern office schemes is less than 5,000 sq m per year with limited supply of high standard premises
- Asking rents for modern office space of 12 euros/ sq m. / mth.

Although activity in the private sector in the city has been increasing over the past decade, Łódź has one of the highest unemployment rates in Polish cities (19%). Occupiers located in Łódź include, Dresdner Bank, LG Petro Bank, Provident, Centertel, Prokom Software, GTS Internet Partners, and Philips.

### POZNAN

- 300 km west of Warsaw
- 577,000 inhabitants
- Total modern office stock of 102,000 sq m. with 38,600 sq m. of new office buildings in 2003
- Take-up was 16,600 sq m in 2003 with demand for modern office space coming mainly from the financial and insurance sectors

- Vacancy rate was stable for the first two quarters of 2003 but increased dramatically to approximately 40% at the end of 2003 because of new office developments completed in the 3rd and 4th quarters
- Asking rents are 14-17 euros / sq m / mth. for prime offices and 9-13 euros / sq m. / mth. for older refurbished buildings

We predict that an additional 6,000 sq m. of office space will enter the Pozna market in 2004 and expect to see growing demand, falling vacancies and stabilising rents

## WROCŁAW

- Largest urban, cultural, scientific and economic centre in Poland, located on the intersection of a number of international roads including the A4 motorway connecting Berlin with Lvov in Ukraine
- 640,000 inhabitants
- Total office stock of c.254,600 sq m, of which 130,000 sq m is new development. About 30% of B+ office space is located in multi-use buildings
- Vacancy rates in modern developments are generally below 15%, whilst overall vacancy has increased over the last six years to 25% in 2003
- Asking rents for B+ class buildings are 8-12 euros / sq m / mth

## KATOWICE

- 300 km south of Warsaw
- Silesian conurbation has over three million inhabitants
- Total office stock of c. 210,000 sq m with c. 41,000 sq m of modern office space
- Average office vacancy rate is approximately 25%
- Demand for modern office premises comes mainly from the financial and insurance sectors
- Asking rents for office space currently under construction are 15 euros / sq m / mth

Rents are expected to be stable for the foreseeable future with falling vacancies due to the low supply of office space.

## WARSAW

- Office stock rose by 51,200 sq m in Q1 2004 and we expect that over 100,000 sq m in total will be delivered by the end of 2004 in Warsaw

- Total vacancy rate for ready-to-occupy Warsaw office space has continued to decrease from 16.1% in Q1 2003 to 13.5% in Q1 2004. This decrease is primarily attributed to the fall in vacancy in non-central locations where over 30% of stock is owner-occupied
- Vacancy rate in the Central Business District has increased from 15.2% in Q1 2003 to 18.8% in Q1 2004
- Asking rents for prime office space are 22-23 euros / sq m / mth. However, downward pressure on average rental levels persists, and in the CBD effective rents are 15-20 euros / sq m / mth. Non-central rents are 12-14 euros / sq m / mth
- Typical incentives include rent-free period (usually 3 to 6 months, depending on the lease length), and landlords' contribution to fit-out and other capital costs

## REAL ESTATE PRACTICE IN POLAND

The major customs and practices of the Polish real estate market are as follows:

1. Rent is paid in PLN and denominated in US dollar or EUR. Rent is quoted on a monthly per square metre basis, and paid monthly in advance. In general, base rent is quoted net of operating and tax costs (net lease).
2. Service charges are paid in PLN and denominated in US dollar or EUR. Service charges are quoted on a monthly per square meter basis, and paid monthly in advance.
3. Rent and service charge are subject to 22% VAT tax.
4. Rent is increased every year according to denominated currency (i.e US CPI Index).
5. In today's market, rent free periods can be up to 3 – 6 months for 5 year terms.
6. Direct space is normally delivered with utilities stubbed to the core. Landlords normally provide a standard fit out including carpets, suspended ceilings, air-conditioning in an open plan area. However landlords are now more willing to offer full fit-out and / or fit out allowance depending on the tenant's credit, the base rent, and the length of lease.
7. The normal term of a direct lease is a maximum of 5-10 years. The length of lease term in most cases relates to the size of space leased and the value of improvements that must be depreciated.
8. Current market conditions are very attractive to tenants. Landlords are likely to offer a number of incentives, such as :

- Long rent free periods
- Capital contribution / full fit-out
- Relocation costs

- Rent review options
- Break clauses

9. Taking over existing commitment / liabilities

## FUTURE

Interest from corporate occupiers looking to set up BPO operations in Poland is expected to continue to grow as businesses enjoy the benefits of low cost real estate and workforce whilst operating within the EU.

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