ASIA-PACIFIC
HORIZON

Knight Frank

Harnessing the Potential of Offshoring

Part 2

The report studies the essential factors that define the region's competitive edge as the best location for offshoring services and sheds light on the significant changes in the industry.

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Introduction

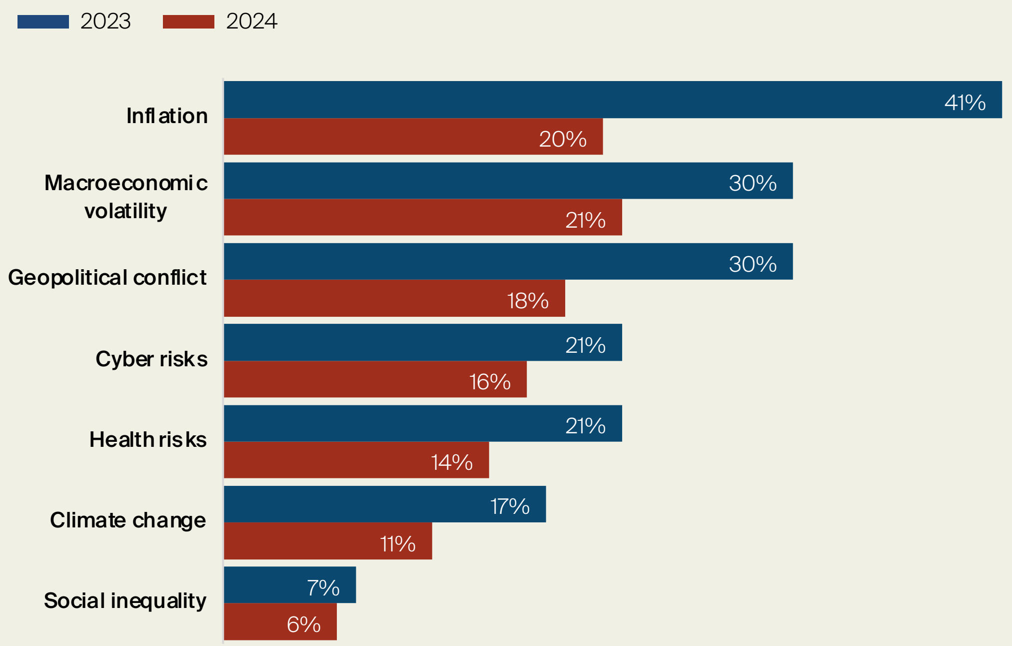
Following decades of low inflation, the world is facing challenges from rising prices, leading to a cost-of-living crisis affecting both consumers and businesses. Amidst the challenges of a demanding economic landscape, businesses are facing a multi-faceted set of challenges associated with weakened consumer purchasing power, higher operating costs due to increased energy and materials prices, employee demands for higher wages, and elevated interest rates contributing to the escalating cost of credit.

This vigilant attitude was reflected in PwC's 27th Annual Global CEO Survey, where Asia-Pacific CEOs have chosen 'inflation' and 'macroeconomic volatility' as the top concerns regarding business and growth for two consecutive years, albeit improved sentiments in 2024 (Figure 1).

In the face of challenging economic conditions, some businesses were compelled to resort to layoffs as a critical measure to safeguard their bottom lines. Over 6,500 companies globally have declared layoffs since 2023, with a majority from the technology and banking sectors (Figure 2).

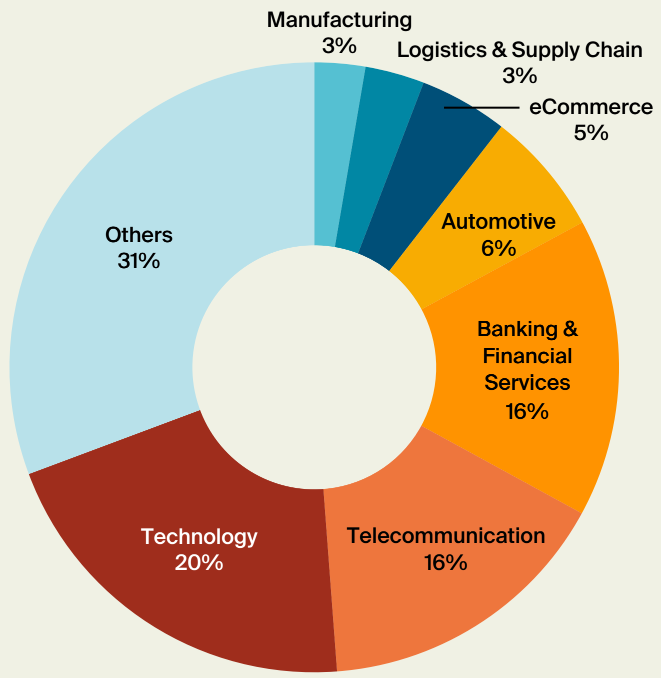
Figure 1: Inflation has been the top business concern

Q. How exposed do you believe your company will be to the following key threats in the next 12 months? (Showing only 'highly exposed' and 'extremely exposed' responses)



Source: Asia-Pacific PwC 27th Annual Global CEO

Figure 2: Proportion of layoffs in major industries globally



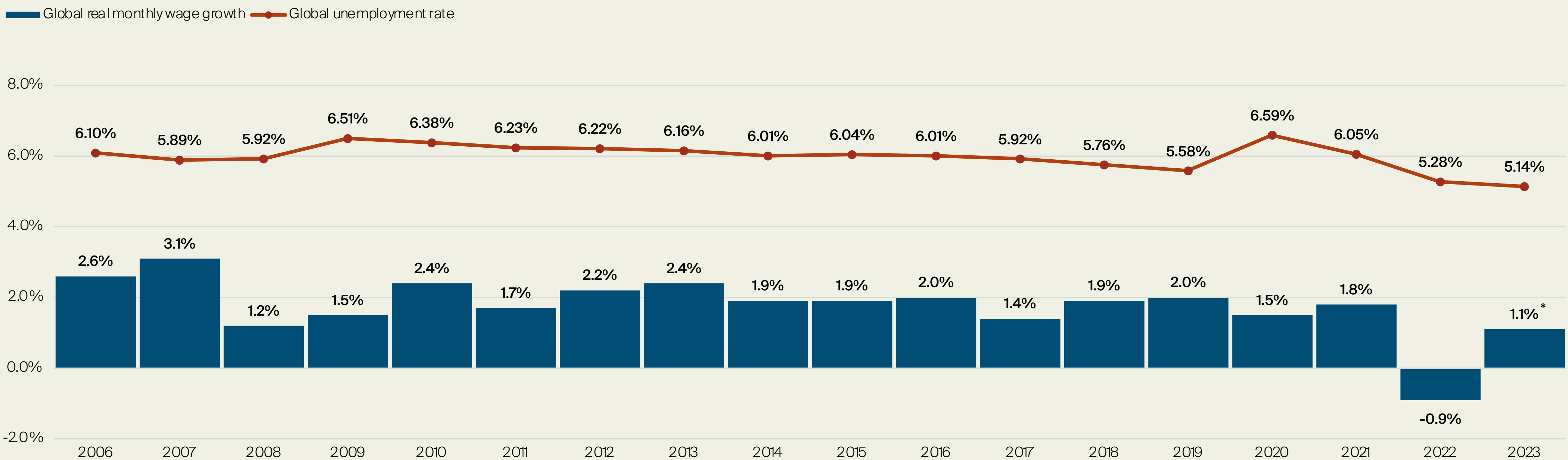
Source: Intellizence, Knight Frank Research

Salary price escalation

The pandemic triggered a widespread labour shortage, fundamentally reshaping our work perceptions in a phenomenon termed the 'Great Resignation' that inadvertently fuelled wage inflation (Figure 3). International Labour Organisation data reveals that between 2006 and 2022, nominal wages have increased by 36% globally.

The situation was exacerbated when the United States (US) inflation hit a 40-year high in June 2022, and 60% of advanced economies struggled with annual inflation rates of over 5%. Despite the receding inflationary pressure from the end of 2023 till the present, higher business costs and costs of goods, services, and raw materials remain. This poses a profound concern for businesses striving for cost sustainability. Hence, businesses are pivoting to lower-cost destinations to achieve "more with less", and aiming for higher productivity growth has become the priority.

Figure 3: Annual average labour statistics, 2006-2023



Note: Figures illustrate formal employment data only
*Knight Frank estimates
Source: International Labour Organisation, Knight Frank Research

Offshoring under greater consideration

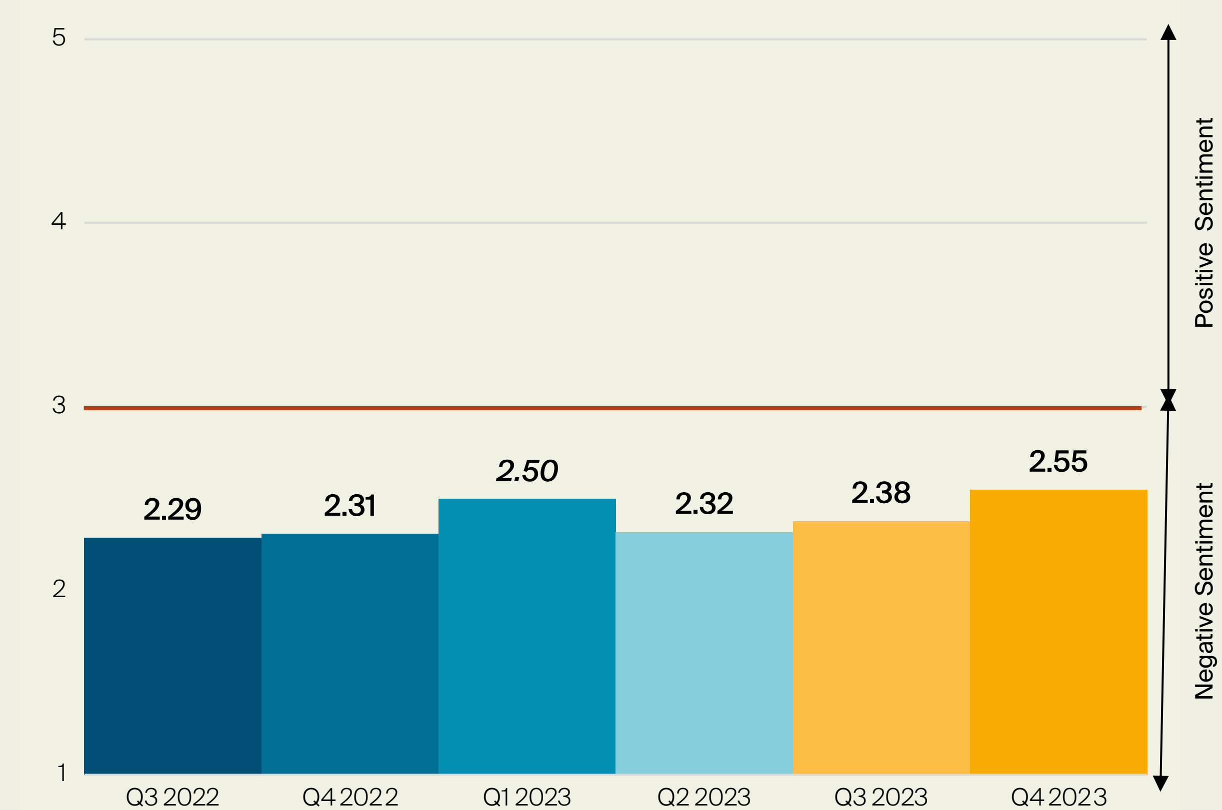
Global companies are increasingly seeking cost-effective solutions to minimise expenses, and a growing number are now looking towards offshoring functions as a strategic avenue. This is supported by the Q4 2023 Knight Frank Global Corporate Real Estate Sentiment Index – a unique index assessing the short-term (six-month) outlook of corporate real estate leaders in relation to growth, portfolio, and workplace dynamics. The survey results indicate a growing trend towards offshoring activities, suggesting that more businesses may turn to this strategy as a means of managing costs from 2024 onwards,

In Q4 2023, the indicator showed improving sentiment for the third consecutive quarter, with an additional increase of 0.17 points, from 2.38 to 2.55 quarter-on-quarter (Figure 4). This marks the highest score since Q2 2022, as more corporates place emphasis on offshoring functions to new locations over the next six months. It is worth noting that this indicator may be under-representative of the market reality as some of the respondent businesses operate in sectors not traditionally associated with offshoring processes.

According to TDS Global Solutions, the spotlight is cast on the Asia-Pacific region as it offers significantly reduced operating costs that averaged nearly 70% less compared to the US. Furthermore, the highly educated, versatile, and multilingual talents in developing markets within the Asia-Pacific region are well-positioned to provide quality service.

Figure 4: The Knight Frank global corporate real estate sentiment index
Offshoring functions to new locations

Over the next 6 months my company will be offshoring certain business functions to new locations...
1 = strongly disagree, 5 = strongly agree



Scores >3 represent positive sentiment and <3 represent negative sentiment
Source: Knight Frank Research

Global offshoring landscape enters a new phase

The global offshoring industry is undergoing a significant transformation due to technological advancements. There has been a transition from basic functions in the early days of first-generation outsourcing to specialised services, including finance and accounting, human resources, legal process outsourcing, analytics, and often in-house operations.

Multinational companies (MNCs) used to strategically utilise Business Process Outsourcing (BPO) functions to tap into the global talent and optimise costs. With the introduction of automation and artificial intelligence (AI) in recent years, more MNCs are also establishing in-house teams in offshore locations such as India, the Philippines, Malaysia, and Vietnam to drive innovation.

This evolution extends beyond cost optimisation; higher productivity enabled by AI and technology is becoming the new norm. With a higher-skilled labour pool and wider technological adoption, the integration of automation and AI enables numerous BPOs to provide intricate, value-added services to their clients. As such, the offshoring landscape is poised for acceleration in the next decade.

In terms of commercial real estate, the new generation offshoring functions in the Asia-Pacific region constitute a significant office occupier group and are frequently pioneers in adaptation and innovation, setting a precedent for other occupiers. This report explores the expansion of offshoring in the region, delving into their leasing preferences and anticipated drivers in the coming years.

The different nomenclatures of offshoring

Offshoring arose to **help companies streamline operations, cut costs, and concentrate on core functions** by outsourcing non-core activities to external service providers. These providers specialise in delivering specific services efficiently and cost-effectively.

As requirements become more technical, firms increasingly seek higher levels of outsourcing, leading to the emergence of various offshoring centres. Starting with the Shared Services Centre (SSC) Model, firms outsource specific functions like finance, accounting, HR, IT, and customer service. This trend expanded to include strategic areas such as data analytics, process automation, marketing, and legal compliance. As services expand and mature, these centres may transition into a full-fledged Global Business Services (GBS) or Centres of Excellence (CoE).

Business Process Outsourcing (BPO)	Global Capability Centre (GCC)	Global Business Services (GBS)
Involves outsourcing specific business processes to a third-party provider, usually for backend processing.	Involves establishing a company-owned centre to provide higher-value services to the organisation globally.	Involves creating a shared services organisation that provides high-value support functions to the entire enterprise.
Focus on cost reduction.	Focus on building in-house capabilities and creating value for efficiency gains.	Focus on standardisation, automation, and optimisation of business processes.
May offer access to specialised skills and technology.	Usually involves a significant investment in infrastructure, technology, and talent.	Can deliver significant cost savings and efficiency gains through economies of scale.
Potential challenges include loss of control over outsourced processes and communication barriers.	Potential challenges include the complexity and cost of setting up and managing a GCC, as well as the need for strong leadership and governance.	May face challenges related to organisational resistance, and the complexity of implementing a shared services model.

COMPANIES OUTSOURCING IN ASIA -PACIFIC

Google

American Express

Shell

Facebook

Nestle

BMW

Maersk

Standard Chartered

Attributes of Asia-Pacific as a leading offshoring destination

In examining the pivotal elements influencing offshoring site selections, various factors come into play, which underscores the intricate dynamics shaping the offshoring landscape. Table 1 summarises the region's competitive edge in the global offshoring industry.

Table 1: Attributes of Asia-Pacific as a leading offshoring destination

STRATEGIC LOCATION	INFRASTRUCTURE
Covers seven time zones, facilitating round-the-clock services	Highly developed Infocomm Technology infrastructure
Geopolitically stable	Government incentives
Strong MNC presence	Fast and secure connectivity to support remote working & virtual collaboration

BUSINESS ENVIRONMENT	TALENT POOL
Economically stable with minimal corporate risks	Competitive manpower costs in developing countries
Supportive regulatory framework	Young talent pipeline
Availability and cost of quality real estate	Increasing literacy levels and quality standards
Favourable currency exchange rates	Ability to speak multiple languages

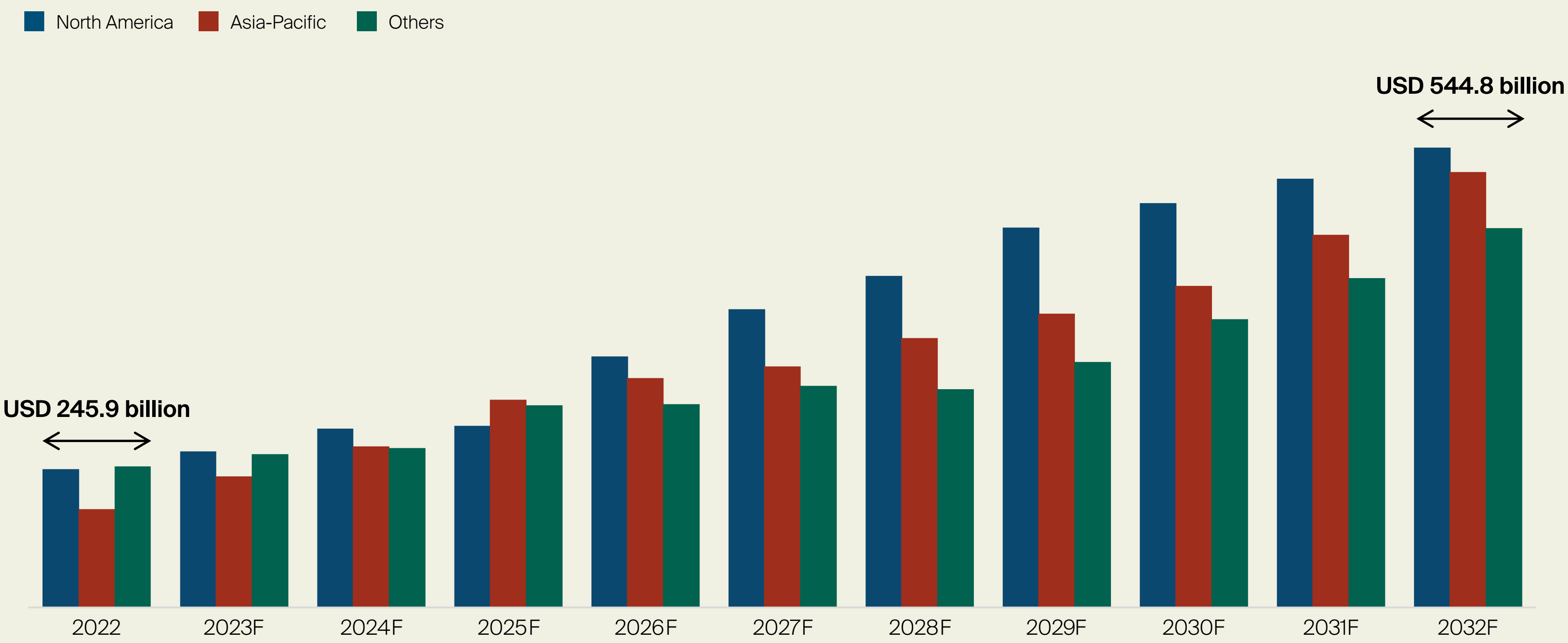
Dynamic landscape in Asia-Pacific

The global offshoring market is predicted to grow from USD 245.9 billion in 2022 to USD 544.8 billion in 2032, reflecting an 8.5% compound annual growth rate (CAGR), as indicated by market.us (Figure 5). While North America will continue to command the lion's share of the market, Asia-Pacific is expected to record the highest CAGR at 10.2%.

The advantageous traits offered resulted in the expansion of the Asia-Pacific offshoring market, with growth accelerating beyond 2023 on the back of labour cost challenges, heightened demand for skilled workers, and the sustained digital investments made by market players. Another study done by Spherical Insights showed that the market size was valued at USD 72.7 billion in 2022 and is forecast to more than double to USD 185.1 billion by 2032. The region is also anticipated to experience the fastest growth throughout the forecast period.

Within the region, a few markets have established themselves as offshoring centres of the world.

Figure 5: Market size of global offshoring (USD billion)



Source: market.us, Knight Frank Research

CAGR

GLOBAL	8.5 %
NORTH AMERICA	9.7 %
ASIA-PACIFIC	10.2 %
OTHERS	5.6 %

Dynamic landscape in Asia-Pacific

India

- Traditional leader in outsourcing
- Contributes to almost 60% of the global offshoring market
- Employs nearly 4.1 million people in India
- Accounts for 6.3% of GDP
- Government policy enhances its position as a high-skill, low-cost market

Philippines

- Projected to represent roughly 10% -15% of the global offshoring market
- An estimate of 1.6 million Filipinos employed across more than 1,000 firms for offshoring functions
- Accounts for 6.0% of GDP
- Government offers more specialised courses such as data analysis and cloud computing

Malaysia

- Ranked 3rd best global outsourcing location consecutively*
- Has a rough estimate of more than 8% share of the Asia-Pacific offshoring market
- Strong government support to develop digital skills
- Investing to attract Fortune 500 tech companies to create high-value jobs

Vietnam

- A promising destination for outsourcing in recent years
- Ranked 7th best global outsourcing location*
- Presence of major technology firms positions the country as a global digital hub

*2023 Kearney Global Services Location Index

Table 2: Best offshoring locations around the world

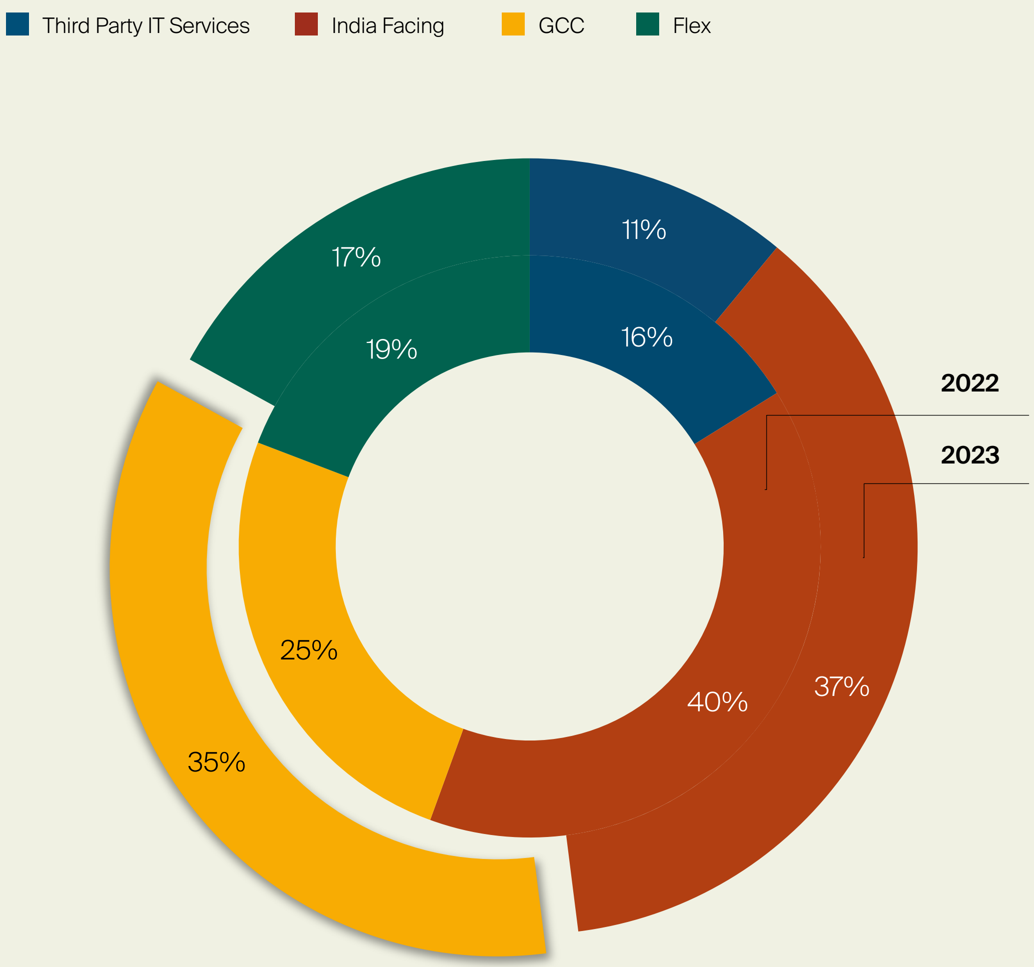
IN ASIA-PACIFIC
1 INDIA
2 CHINESE MAINLAND
3 MALAYSIA
4 INDONESIA
5 VIETNAM

OTHER REGIONS
1 BRAZIL
2 UK
3 US
4 MEXICO
5 COLOMBIA

Source: 2023 Kearney Global Services Location Index

What does it mean for occupiers?

Figure 6: GCC share of total leasing transactions in India rose the most



Note: Inner circle - 2022; Outer circle - 2023
Source: Knight Frank Research

Offshoring has emerged as a critical driver propelling office demand in the four aforementioned hubs as they steadily expanded their footprint. For instance, of all Indian leasing transactions that occurred in 2023, GCC's proportion expanded by 10% from 2022 to 2023, taking up 35% of the total market share (Figure 6). On the other hand, the demand from third-party IT services remains subdued due to global economic uncertainty.

This trend was similarly observed in the other three markets. More elaboration can be found on pages 17-23, where we highlight the strengths of the individual markets.

In anticipation of further growth in demand, firms that offshore are also leasing larger offices with the potential to scale up in the future. This comes at an opportune time as occupier conditions are turning more favourable for tenants as landlords keep rents competitive to fill up vacancy spaces amidst a significant number of new completions.

What does it mean for occupiers?

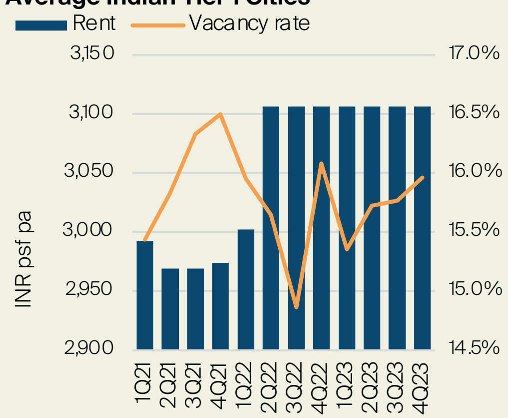
Based on our Knight Frank Asia-Pacific Q4 2023 Office Highlights, overall rents for the region declined 2.4% while the average vacancy rate trended upwards by 1.24% for 2023. Although sentiment continues to improve, it remains fragile. Occupiers are still cost-conscious due to the challenging macro environment. Many corporates face constraints from limited capital expenditure (CAPEX) and appetite for expansion, including the four markets with flourishing offshoring demand (Figure 7).

The silver lining is that corporate occupiers continue to prioritise offshoring functions, fuelling headcount growth in regions that offer growth and innovation at a lower cost, while maintaining efficiency in pricier locations. As such, occupiers concentrate on boosting office demand in these strategic locations while reducing real estate needs elsewhere, potentially resulting in reduced demand in those locations.

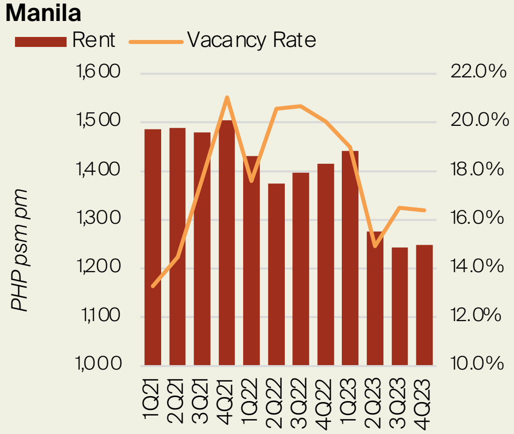
This strategic resource allocation helps mitigate rental declines in markets like Vietnam and the Philippines, while rents have even strengthened in Malaysia and India despite higher vacancies.

Figure 7: Comparing the prime office markets of the four offshoring centres in Asia-Pacific

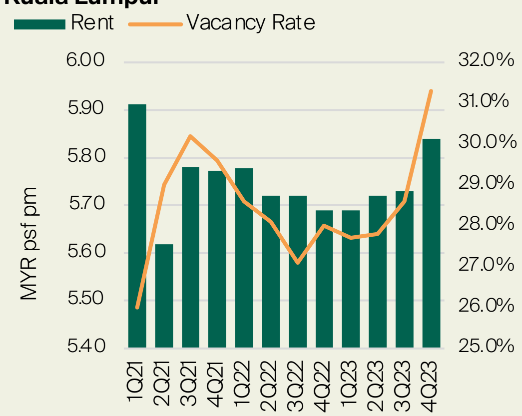
Average Indian Tier 1 Cities



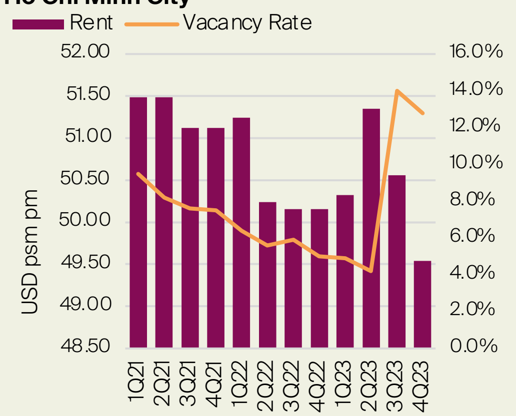
Manila



Kuala Lumpur



Ho Chi Minh City



Vacancy rate improved marginally throughout 2023 from robust demand, despite an increase in supply. The growing share of GCC in total leases will remain supportive of office market demand in 2024.

Although rent contracted 11.7% in 2023, vacancy rate remained resilient, with demand stemming from traditional and outsourcing firms adopting a combination of flight-to-quality and flight-to-cost measures.

A strong flight-to-quality trend is underpinning resilient rental growth in Kuala Lumpur amid tight new supply. Tenants took the opportunity to relocate to newer, technologically advanced buildings, resulting in a rise in rental prices.

Rents in Ho Chi Minh City continue to adjust to the high volume of completions, as some landlords offer more competitive asking rents to maintain occupancy rates. Substantial supply is expected in 2024, pressuring rents further.

Source: Knight Frank Research

What does it mean for occupiers?

Nonetheless, affordable real estate costs should encourage consistent offshoring activities, as occupiers are enticed by potential cost savings. For every square foot of office space, occupiers can expect to save on average USD 70.86 in the four cities compared with mature markets (Figure 8). This translates to a staggering 54.0% cutback in occupancy costs annually.

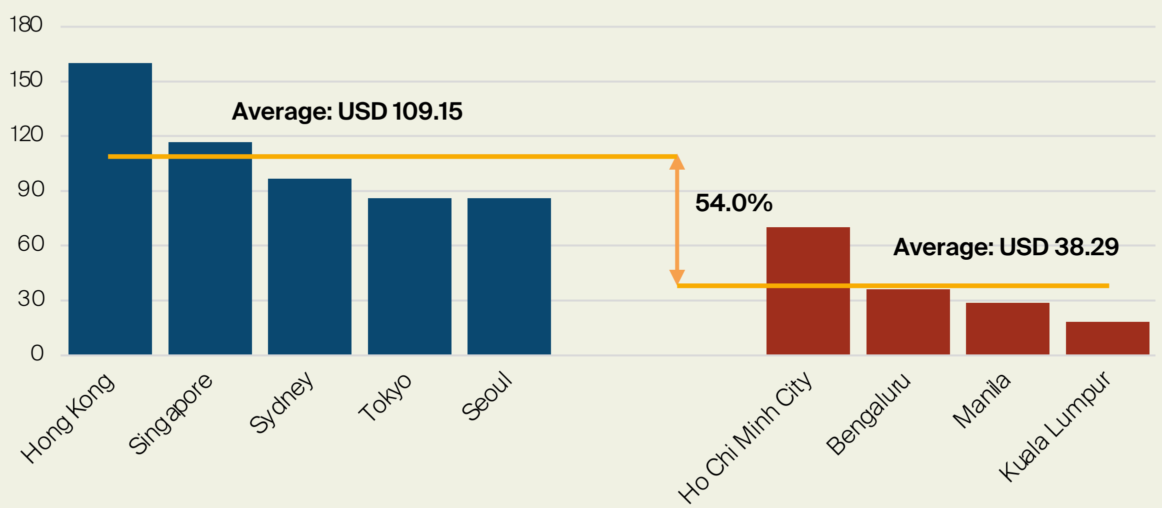
As the offshoring market continues to evolve in the Asia-Pacific region, employers increasingly recognise workspaces' importance in shaping corporate branding and retaining talent. This is particularly significant as approximately 81% of organisations within the offshoring sector are contending with a shortage of skilled workers, a trend exacerbated by the rapid evolution of new technologies, as highlighted in the report by EY and iMocha.

Given the rise of hybrid work arrangements, it is essential to customise offshoring facilities to accommodate diverse working styles. This involves incorporating features such as individual work pods and dedicated areas for focused tasks alongside ample space for collaborative activities and informal discussions.

In addition, the demand for flexible office space in offshoring functions is also significantly higher than non-offshoring functions. This is due to the need for rapid scaling, project-based work, typically in a short span of time. Flex space is thus an important consideration for companies engaged in offshoring activities.

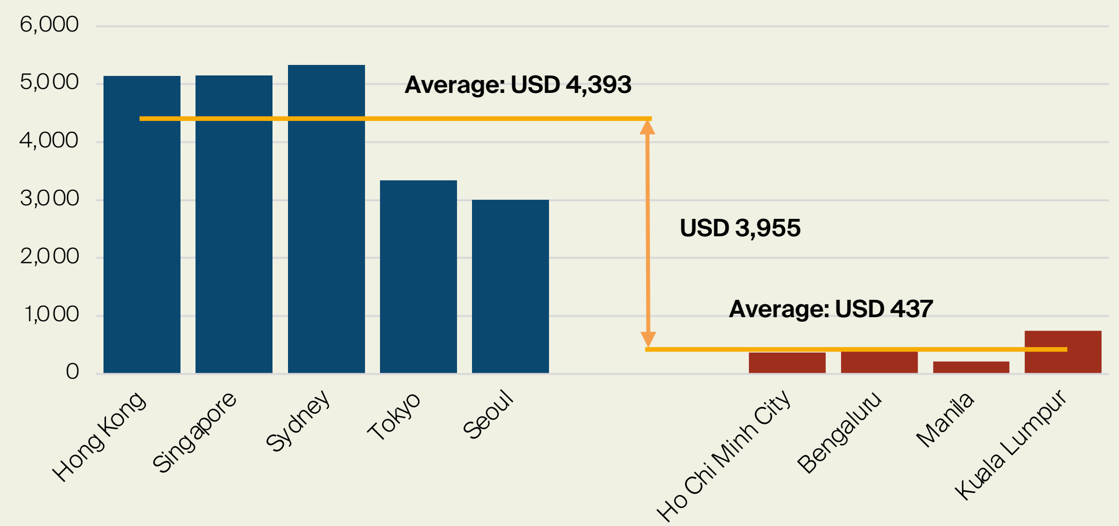
Moreover, with a predominantly youthful workforce, companies can leverage amenities as a motivational tool and elevate the overall workplace experience for employees. With a significant pipeline supply anticipated in the four key markets, occupiers are currently well-positioned to secure high-quality spaces that support their workplace transformation and talent retention initiatives at a reasonable cost. Concurrently, as the market expands, companies that offshore should seize this opportunity to strategise for future operational scaling and secure favourable rental rates.

Figure 8: Comparing total occupancy costs in Asia-Pacific (USD/sqft/year)



Source: Knight Frank Research

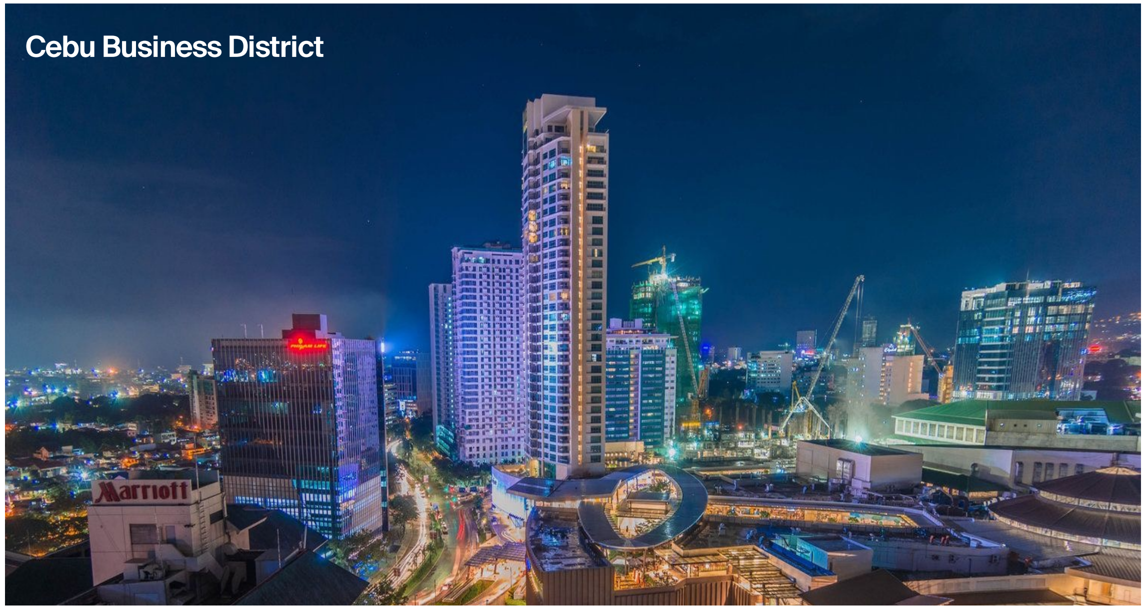
Figure 9: Comparing average monthly wage in Asia-Pacific (USD)



Source: Macrobond, Knight Frank Research

Emerging offshoring hubs

With the increasing maturity of the offshoring market, other key hubs will continue to challenge the established destination leaders. In terms of scale, these locations are often small but growing rapidly and offer a more cost-effective alternative than those found in their respective capital cities.



Cebu, Philippines

Cebu boasts more than 300 IT business process management companies, employing 220,000 workers providing shared services such as information technology outsourcing and information management across a wide range of clients and sectors. The cost of doing business in Cebu is much lower than in Manila, making it an attractive alternative. Prime office space rent in Cebu is 20-40% lower than in Metro Manila, particularly in major business districts such as Makati and Bonifacio Global City.

Penang, Malaysia

Penang is emerging to be a major offshoring hub that has built up offices catering to these facilities in Bayan Lepas. This is in line with the state government's plans to drive the economy by making Penang a prime investment destination for global business services activities, research & development as well as technology hubs. Prime office rent in Penang is about 25% lower than those in the country's capital.

A snapshot of Asia-Pacific's offshoring hubs

Selecting the location for a company's offshore facility involves considering various factors. While costs and talent availability are crucial, cultural and linguistic aspects must also be weighed. With fierce competition for offshoring contracts, assessing factors such as comparative advantage, available skill sets, and growth potential is essential. Each country offers its unique value proposition, with certain regions excelling in specific business processes or IT support while others stand out for affordability. Additionally, long-term global sourcing trends and the current global economic and geopolitical climate should be taken into account for informed decision-making.

Delve into the strengths of each individual market

DISCOVER MORE

A spotlight on Asia-Pacific's offshoring hubs

Several frameworks to assess offshoring destinations have been discussed in academia and professionally. We identified the five main pillars which we believe characterise the region's major offshoring hubs and developed a composite score for each. The score highlights the relative strengths and limitations of each country, providing a snapshot of the range of options available to occupiers. However, context, such as the type of processes, the prevailing economic climate as well as long-term offshoring trends, are also important in driving site selection decisions.

KEY DRIVERS OF LOCATION CHOICE

GROWTH DYNAMIC
- SCALEABILITY
- ECONOMIC PROSPECTS

SKILLS
- EDUCATION
- ENGLISH PROFICIENCY
- DIGITAL SKILLS

LABOUR FORCE
- SIZE OF WORKING POPULATION
- MEDIAN AGE

BUSINESS COST
- CONSTRUCTION COST
- CONNECTIVITY
- CORPORATE TAXES
- WAGES

CRE VALUE
- PRIME OFFICE RENT
- SUSTAINABILITY
- URBAN MOBILITY

GROWTH DYNAMIC

As firms look at value-added dimensions over time, this factor indicates whether the parent firm can envisage a growth strategy for its offshore facility. Growth dynamics, measured by scaleability and economic factors, indicate a facility's ability to evolve.

SKILLS/LABOUR FORCE

The pool and quality of human resources is a critical consideration for the offshoring industry. A sufficiently deep talent pool also ensures that wage inflation will be manageable due to a constant supply of workers. It is also indicative of the extent of the skills gap in a workforce. As offshoring locations in the region largely serve corporations from English-speaking countries, proficiency in that language is also required.

BUSINESS COSTS

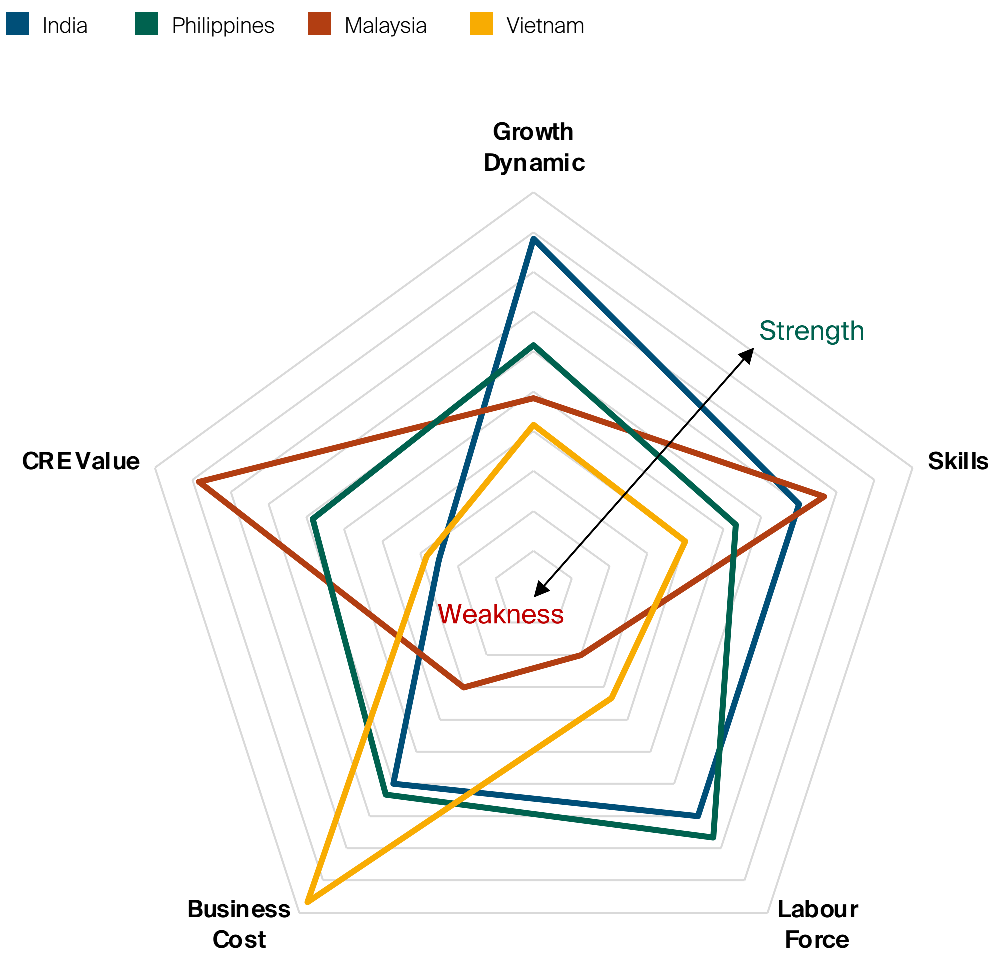
Firms expect offshoring to create value for stakeholders through lowering or improving the cost/quality of an input by leveraging an external supplier's advantages. In either case, this advantage will not be easily replicated. Companies considering offshoring processes typically compare a range of input costs: labour, infrastructure expenses such as internet access as well as the corporate tax regime.

CRE VALUE

Occupancy costs remain a significant overhead for organisations. However, with more global companies embracing ESG and sustainability targets, tenants will also continue to seek out well-located, green-compliant spaces. This will not be any different for tenants in the offshoring services industry.

A spotlight on Asia-Pacific's offshoring hubs

Figure 10: Comparing offshoring hubs in the Asia-Pacific



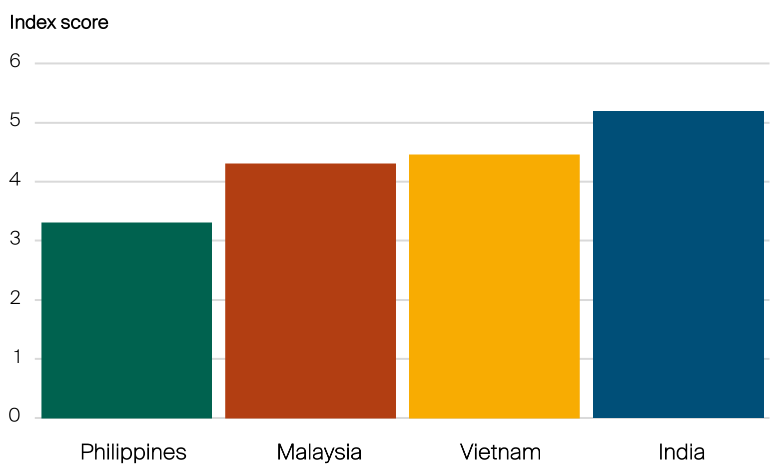
The offshoring location composite

India emerged as a leader in the global offshoring industry with the establishment of outsourcing centres in cities such as Bengaluru and Hyderabad in the 1990s. However, the country is experiencing upward pressure on wages and operational costs. While India has developed capabilities in more sophisticated processes, the region's diverse economies also enable companies with different priorities to explore other options. The growth of global offshoring as a cornerstone of corporate strategy offers opportunities for the region's offshoring hubs to differentiate themselves and compete across a range of factors.

A spotlight on Asia-Pacific's offshoring hubs

The composite highlights the primary factors that distinguish each of these outsourcing and offshoring locations from a top-down perspective in the initial stages of site selection. As price pressures and investment incentives may differ within a country, the next level can be driven by considering city-level indicators. However, this will have to turn more granular. As indicated in Knight Frank's latest (Y)OUR SPACE survey, occupiers are becoming more attuned to the strategic role of their real estate. With the war for talent among the top drivers of strategic CRE decisions for Asia-Pacific respondents, occupiers will have to consider property specifics that maximise the workplace experience. This means considering well-located offices near transport nodes that boast a good selection of retail as well as leisure amenities which promote health and wellness in the workplace.

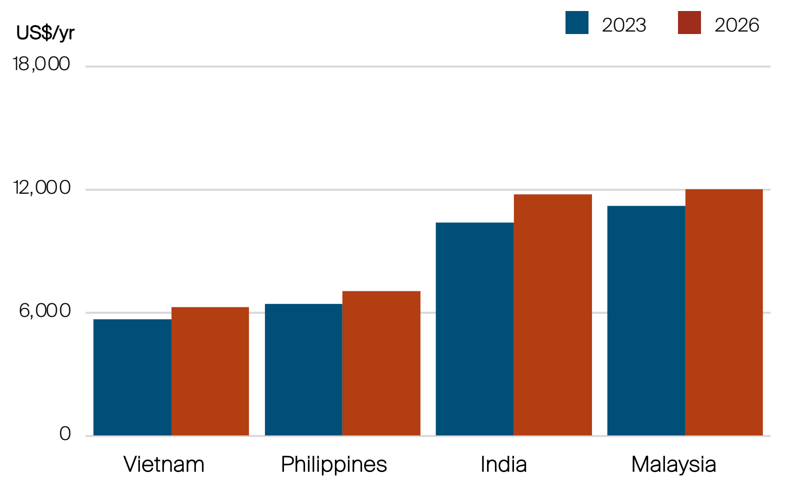
Digital Skills



According to Statista, there are close to 5 million software developers in India, second only to China. While India's average education levels of its workforce lag behind the other three countries, it makes up for it with a massive resource base. The ability of a country's workforce to harness digital technologies will be a critical game changer. India's massive labour pool with a strong science, technology, engineering and math (STEM) background resonates.

Source: 2023 Global Service Location Index – Digital Resonance

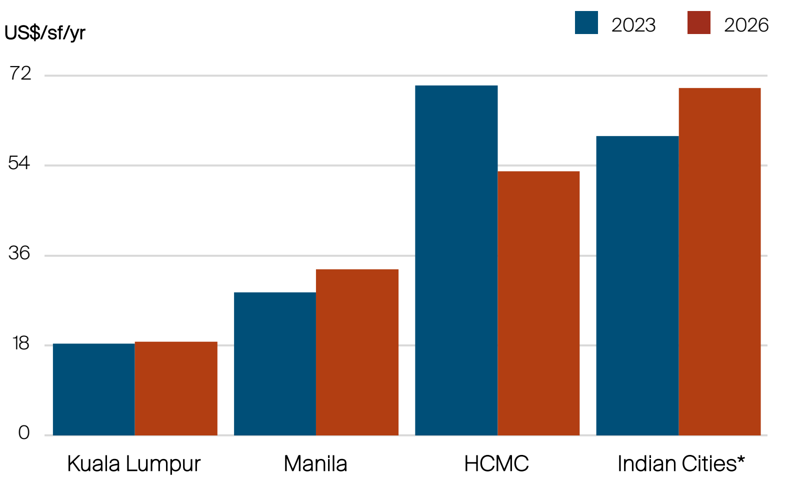
Wage Costs (Offshoring-related)



While wage costs remain highly competitive in the region, it will continue to increase as its economies develop. As such, the scaleability of a location's human capital is vital to evolve with trends and technology and take on increasingly complex tasks.

Source: Respective government data

Prime Office Rent



For most firms, real estate cost makes up 10-15% of operational expenses. As such, it can affect the viability of a firm's outsourcing facility. Office rents in Indian Cities are expected to overtake Ho Chi Minh City (HCMC) 's in the next three years. With an ample pipeline stemming from the establishment of HCMC's alternative business district in Thu Duc City, rents are expected to decline by over 20% by 2026. Kuala Lumpur's rents are also expected to remain highly attractive.

*Bengaluru, Mumbai, NCR
Source: Knight Frank Research

India

OVERVIEW

The offshoring industry in India has grown significantly into a leading global service provider, accounting for 57% of the global offshoring market. Encompassing a wide range of services, including IT Outsourcing, Research & Knowledge Process Outsourcing, and other service process outsourcing. India hosts approximately 42% of the global firms that execute end-to-end business offshoring solutions from the country. The offshoring industry significantly contributes to the Indian economy, accounting for nearly 60% of overall service exports in 2023. The industry's service exports have grown from USD 63 billion in 2013 to USD 185.5 billion in 2023 – a massive threefold growth.

Over the past decade, India has transformed itself from a cost-effective centre into a value-adding captive centre. The country diversified into new domains such as human resource outsourcing, sales and supply chain management. It established new research and development facilities and enhanced new businesses through improved business processes and digital transformation initiatives. Subsequently, India aligned itself with the evolving needs of global businesses, transitioning from a value-adding captive centre to establishing itself as a centre of excellence. This shift involved an increasing focus on futuristic technologies such as artificial intelligence and machine learning (AI/ML), robotic process automation, and big data.

KEY OFFICE OCCUPIER

In recent years, India's office real estate market has seen a positive trend from GCCs, seeking growth opportunities in the global offshoring industry. The GCC landscape in India has grown significantly by fostering more than 1,580 centres across the nation by 2023, with their share of office leasing reaching 35% in the top eight cities in 2023 from only 25% in 2022. While third-party IT outsourcing used to be the main demand driver for years, GCCs have now become key occupiers in the offshoring industry.

Favourable business sentiments and an entrepreneurial spirit among industry leaders have reinforced confidence in India's real estate market, thus favouring the infusion of USD 52.5 billion in private equity over the last decade. In 2023, India witnessed an overall leasing volume of 27.3 million square feet (sqft) in the offshoring industry, marking a significant increase of 26% compared to the previous year.

Bengaluru, known as the "Silicon Valley" of India, emerged as the most preferred city for GCCs, accounting for 5.6 million sqft in 2023. Chennai and Hyderabad also experienced substantial growth, with leasing volumes up 2.3 and 1.5 times to reach 7.1 million sqft and 6.6 million sqft, respectively. This growth was driven by high leasing volumes in the semiconductor and BFSI sectors. Collectively, these three cities accounted for nearly 71% of all leasing in the offshoring industry for 2023. Pune, Delhi, and Mumbai followed with leasing volumes of 3.6 million sqft, 3.0 million sqft, and 1.0 million sqft, respectively.

The growth was significantly propelled by GCCs from the industrial sector, particularly in the semiconductor, automobile, and pharmaceutical industries. These GCCs secured large spaces to capitalise on unique growth opportunities and align with the momentum of these industries globally.

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Recent Research

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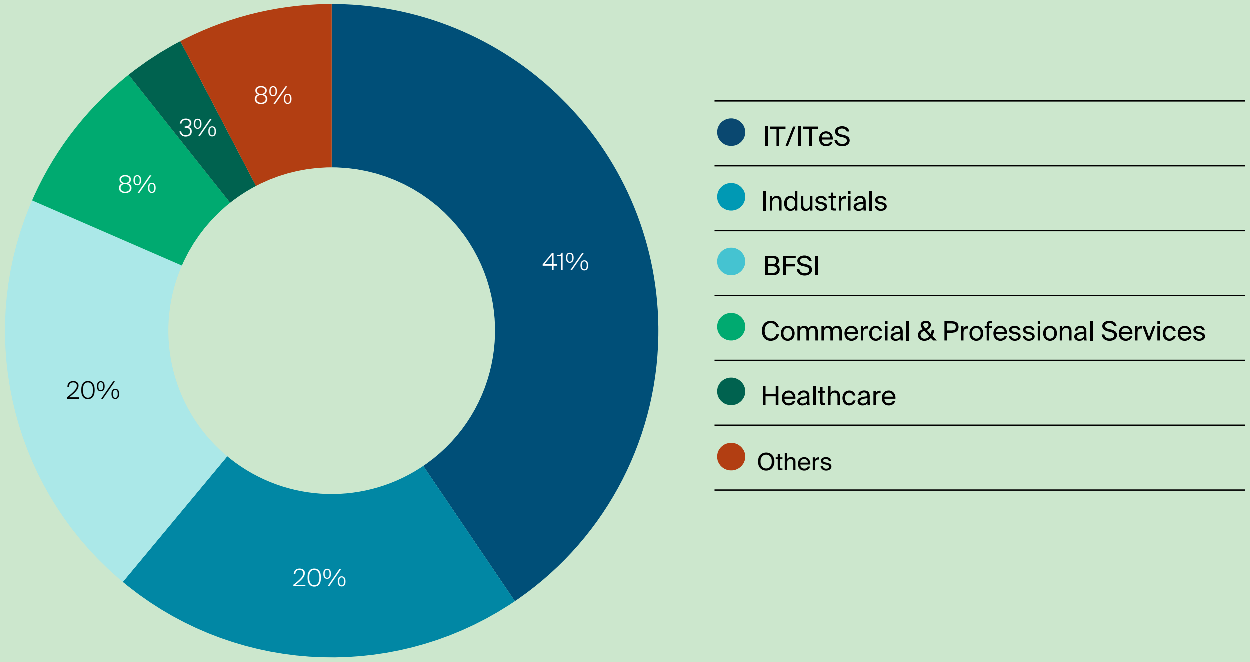
India

OUTLOOK

With advancements in technologies such as AI/ML, robotic process automation, and big data, India has significant growth potential to develop and harness across various sectors and industries. The country's vision of Digital First has positioned it among the early adopters and innovators in digital transformation globally. Increased confidence in India's economic stability has further strengthened the global acceptance of India as the preferred geographic location for setting up offshore units. The country has fortified its position to top various index rankings for global offshoring locations like Kearney's Global Services Location Index 2023. With the current pace of construction, India is expected to achieve the one billion sqft mark in office stock by 2025, mainly catapulted by GCCs, followed by third-party IT outsourcing. India's adoption of cutting-edge technologies could bring new challenges but will also catalyse its journey towards becoming a significant economic and technological power. As India aims to become a developed nation by 2047, its future shines bright with sustained efforts, strategic investments and a willingness to adapt to the evolving global offshoring landscape.

Sector split for GCCs by area (2023)



TOP THREE TRENDS/DRIVERS:

Abundant Talent Pool

India boasts a vast talent pool with an annual median salary of US$10,394 in the *offshoring* industry. With a population of 146 million holding university degrees or higher, the country offers a rich reservoir of skilled professionals.

Competitive Office Rentals

The country offers competitive occupancy costs, with real estate expenses lower than those in other prominent global markets.

Favourable Government Policies

The Indian government's favourable economic policies, formalising economic zones, and robust physical and digital infrastructure initiatives.

SECTORS TO WATCH:

Industrials (Specially Semiconductors & Automobile)

Commercial & Professional Services

BFSI

The Philippines

OVERVIEW

The Philippines' Information Technology and Business Process Management (IT-BPM) sector demonstrated resilience throughout the pandemic, being among a select few industries that operated even through the first wave of community quarantines towards the end of 1Q 2020. While initial estimates expected a 0.5% y-o-y drop in revenues in 2020, the sector instead grew by 1.4% y-o-y to USD26.7 billion, The sector exhibited double-digit growth in 2021 and 2022, recording revenue of USD 29.5 billion and USD 32.5 billion respectively.

The country is expected to continue benefitting from multinational companies looking at offshoring as a cost-effective solution to recover from the impact of the COVID-19 pandemic. Revenue for 2023 is expected to have reached USD 35.4 billion. Among the various segments of offshoring, growth in 2024 is particularly anticipated in healthcare, banking & finance, and contact centres.

According to data from the IT and Business Process Association of the Philippines (IBPAP), the country's offshoring workforce reached 1.32 million in 2020 – a growth of around 23,000 employees despite the layoffs and reorganisations that occurred at the height of the pandemic. The workforce further grew to 1.57 million in 2022 and is estimated to have reached 1.7 million at the end of 2023.

IBPAP's IT-BPM Industry Roadmap estimates revenues to reach USD 59 billion and a 2.5 million-strong workforce by 2028. The organisation projects that the majority of these new jobs would be coming from outside Metro Manila due to the strong push for regional development.

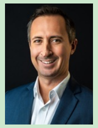
BEYOND MANILA

The Department of Information and Communications Technology's (DICT) Digital Cities 2025 Program features 25 locations other than the Centres of Excellence (composed of Metro Manila, Metro Cebu, Metro Clark, Bacolod City, Davao City, and Iloilo City) where the ability to host businesses from the IT-BPM sector has grown. Factors such as talent availability, infrastructure, cost-effectiveness, and business environment are used to determine high-potential locations, attracting investors and property developers. Other than showcasing these up-and-coming locations, DICT aims to elevate these locations by providing support for institutional development, talent attraction and development, infrastructure development and marketing and promotion.

Among the Digital Cities, those located in provinces adjacent to Metro Manila such as Batangas City, the Laguna cluster (composed of Calamba, Los Baños, and San Pablo), Metro Cavite (composed of Bacoor, General Trias, and Imus), and Metro Rizal (composed of Antipolo, Cainta, and Taytay), are expected to be some of the top alternative locations due to access to a quality talent pool, as well as amenities and infrastructure present in the National Capital Region.

Legislative action allowing offshoring companies to adopt flexible work arrangements to retain incentives such as tax holidays is seen as a strong move that increases the attractiveness of the Philippines to companies that promote work-from-home and hybrid work setups. Currently, some companies are still required to maintain some level of on-site operations.

A traditional office setup in the Philippines usually seen in contact centres



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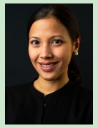

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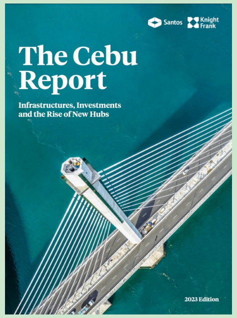
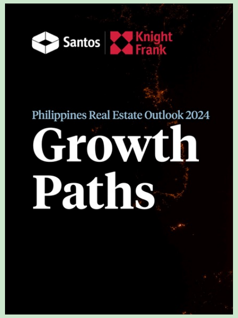


The Cebu Report



Philippines Real Estate Outlook 2024: Growth Paths

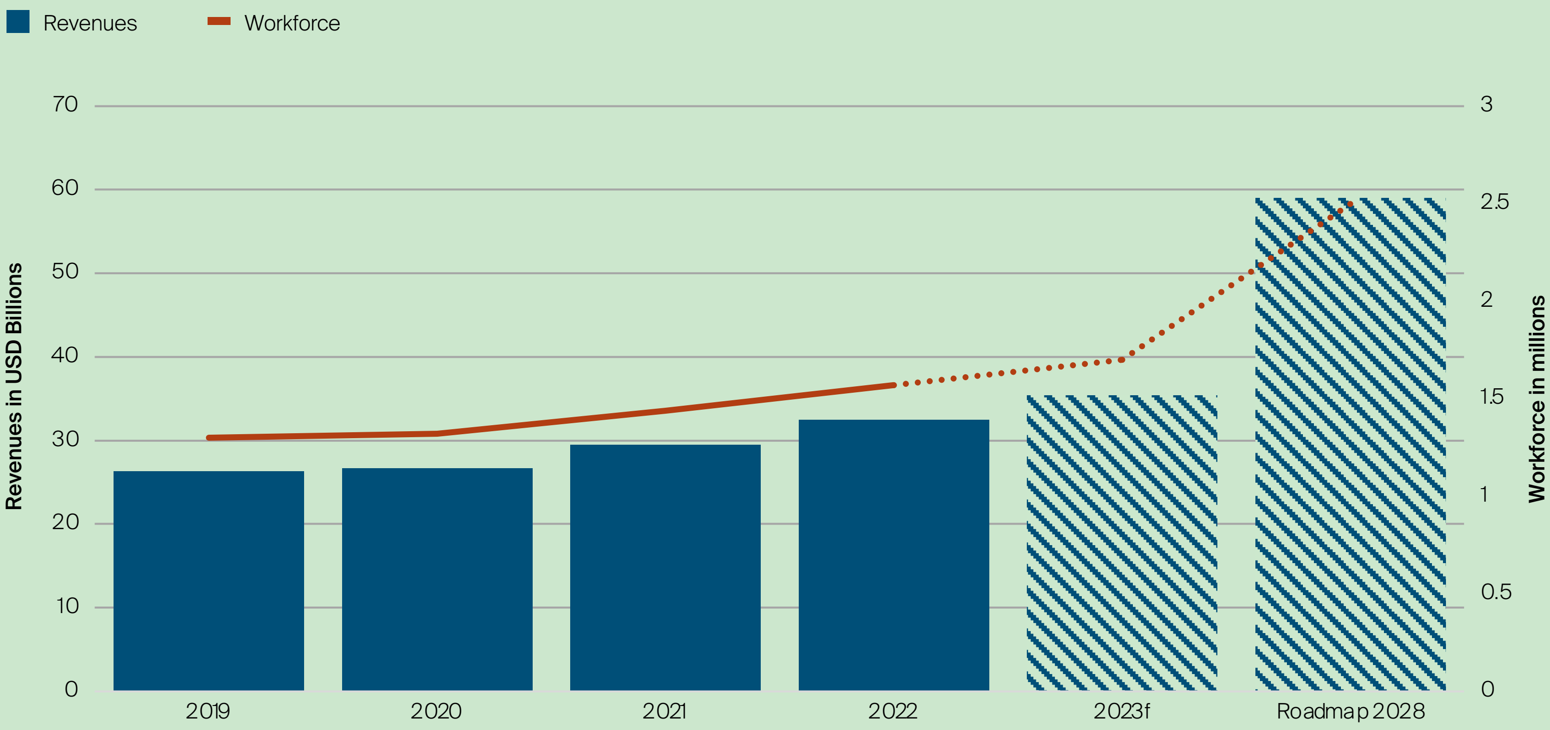
The Philippines

OUTLOOK

The offshoring sector has been the primary source of office space demand in the Philippines since its rise in the early 2000s, with the offshore gaming sector only briefly taking over from 2018 until the eventual exit of Philippine Offshore Gaming Operators (POGOs) in 2020 due to the pandemic and the imposition of stricter regulations.

While flexible work setups allow for office space rationalisation even for the offshoring sector, the implementation of an "office-first" strategy has been observed – marrying the key benefits of remote work and in-person collaboration. For the highly competitive offshoring scene in The Philippines, players are seen to offer various incentives for working on-site, such as free or subsidised meals and refreshments, health & wellness facilities, and socialisation & recreation amenities, among others. With this, the Philippine offshoring sector is expected to remain a major and stable driver of office space demand in the country.

The Philippines' offshoring sector by the numbers



TOP THREE TRENDS/DRIVERS:

Cost-effective Talent

The Philippines is expected to continue benefitting from the sustained demand for more cost-effective talent.

Government Incentives

There is a strong push from the government for *offshoring* companies to locate outside Metro Manila through incentives such as tax holidays, attracting developers and locators to explore growth areas in the provinces.

Flexible Work Arrangements

Legislative action supporting more flexible work arrangements for offshoring companies is seen to help make the country more attractive for players that adopt hybrid work setups.

NOTABLE IT-BPM PLAYERS:

- Accenture
- Concentrix
- IBM
- JP Morgan Chase
- FactSet
- Google
- Meta
- Netflix
- Bytedance (TikTok)

Malaysia

OVERVIEW

As reported in the Malaysia Digital Industry Report 2020 – 1H2022, investments in the Global Business Services (GBS) sector in Malaysia accounted for approximately 50% of total digital investments in both domestic and foreign companies between 2017 and 2021. The report, which measured the performance of Malaysia Digital (MD) status companies, highlighted that the GBS segment is the largest contributor, accounting for 69% of exports and 60% of job creation in the digital industry in 2021. Today, the GBS industry is one of the key pillars supporting the country's digital economy.

The offshoring industry in Malaysia has been in existence since the mid-1980s. The industry, generally known as Shared Services & Outsourcing (SSO) & Business Process Outsourcing (BPO) experienced significant growth in the mid-90s, with international players such as Intel, IBM, DHL, Fujitsu establishing their presence in Malaysia, underpinned by the introduction of the Multimedia Super Corridor (MSC) initiative by the government. Over the years, the outsourcing landscape has evolved into what is now known as GBS. As of 2021, Malaysia is home to 607 GBS companies, with 58% being foreign direct investments; approximately 30% of these companies are Forbes Global 2000 and/or Fortune 500 companies.

OCCUPIER FOOTPRINT

GBS players are primarily concentrated in Greater Kuala Lumpur, with business activities across various industries. As for companies in the northern region of Penang, the majority are engaged in manufacturing-related activities.

In Greater KL, GBS companies were initially concentrated in Cyberjaya, attracted by its unique value proposition as an MSC Cybercentre. Following the partial liberalisation of location requirements for the eligibility of tax incentives for MSC-status companies in 2012, alongside improved connectivity and the establishment of facilities and amenities as well as the completion of new office buildings, there has been a notable increase in leasing activities for GBS companies in the fringe of KL city and commercial precincts in the nearby suburbs.

Today, locations such as KL Sentral, Bangsar South, Petaling Jaya, Bandar Utama, and Bandar Sunway are among the established GBS nodes. It appears that the typical space requirement of initial take up by the GBS players ranges from approximately 15,000 sqft to 25,000 sqft, with the growth plan in stages going up to 100,000 sqft. Rental rates of office spaces in these established locations remain competitive, ranging from USD 1.00 per square foot to USD 1.50 per square foot per month.

In the near term, Malaysia Digital Economy Corporation (MDEC) aspires to establish "5km concentric GBS hubs" throughout the country including in Greater KL, where Tun Razak Exchange (TRX) – the country's new international financial centre – is being identified as the GBS hub for finance-related players, while Cyberjaya remains the focal point for IT-related players.

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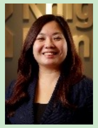

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Real Estate Highlights

Malaysia

OUTLOOK

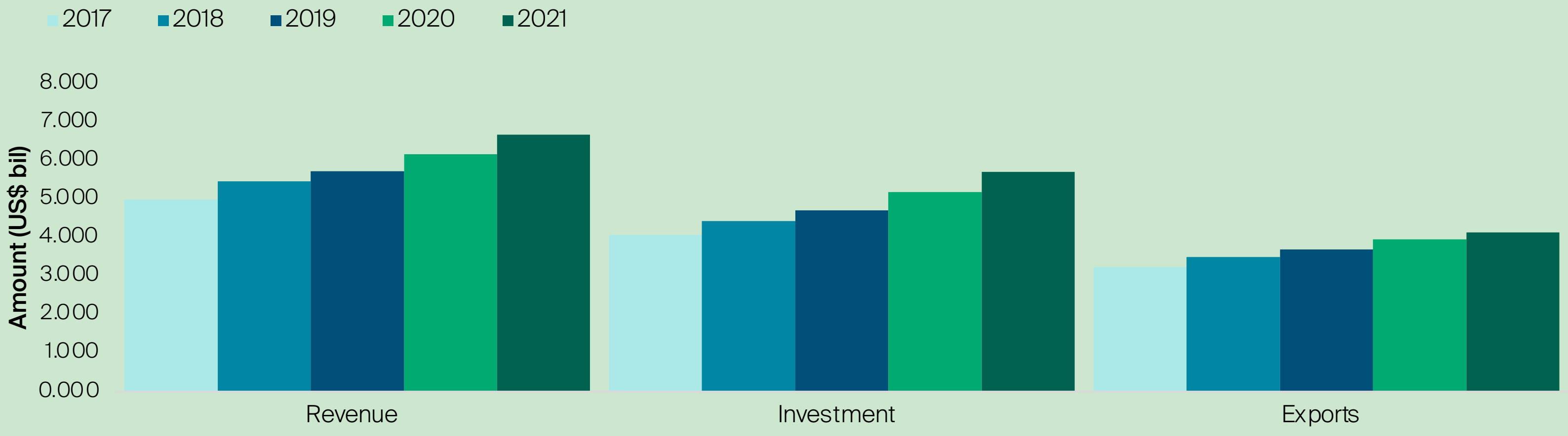
The Malaysian government is dedicated to fostering the country's digital landscape through initiatives like the National IoT Strategic Roadmap and MyDIGITAL, a 10-year blueprint comprising three phases. Incentives such as the National Fourth Industrial Revolution (4IR) Policy and Industry4WRD aim to accelerate digital transformation, industry transition, and supply chain optimization. Additionally, the establishment of the Digital Ministry in January 2024 underscores the government's commitment to digitalization efforts.

MDEC aims to attract MYR 50 billion (approx. USD 12 billion) in digital economy investment by 2025, including 50 Fortune 500 technology companies and the creation of 50,000 high-value jobs under the 'Digital Investment Future5 (DIF5) Strategy' launched in 2021. This strategy also emphasises the growth of Digital Global Business Services through the establishment of Centres of Expertise (CoE) to nurture tech talents. In addition, various initiatives like #MyDigitalWorkforce Work in Tech (MYWIT) and Premier Digital Tech Institute (PDTI) focus on upskilling or reskilling to bridge the gap in digital talent.

In Greater KL, real estate costs are expected to remain competitive as it remains a tenant-led market in the short to medium term. The government's decision to fully liberate location requirements for tax benefits of MD status companies is anticipated to incentivise landlords of new office developments to future-proof their offices, while existing buildings may opt for refurbishment into "digitally-ready" office spaces. This provides GBS players seeking expansion or new office setups in the country with a selection of quality office spaces at competitive rental rates.

As GBS businesses increasingly adopt and utilise technologies to improve efficiency and streamline operations, the presence of skilled digital talents and a robust digital ecosystem becomes pivotal in determining expansion and relocation strategies. With strong government support, coupled with competitive real estate costs and the pool of digital talents, Malaysia remains an attractive destination for GBS companies.

Overall Malaysia GBS Industry Report Performance (2017-2021)



Source: Malaysia Digital Industry Report_2021-H1 2022 , Malaysia Digital Economy Corporation (MDEC)

TOP THREE TRENDS/DRIVERS:

Competitive Rental Rates

Availability of prime and new office space at competitive rental rates offers value propositions.

Abundant Talent Pool

An abundant and agile talent pool, consistently upskilling and reskilling to meet digital industry demands.

Strong Government Support

Strong government support for driving the country's digital economy ensures its competitiveness on a regional scale.

NOTABLE GBS PLAYERS:

- DHL APAC Shared Services
- Nielsen SEA Hub
- Air Liquide APAC Hub
- British American Tobacco APAC Hub

Vietnam

OVERVIEW

Vietnam’s offshoring market was estimated to reach USD 0.53 billion in revenue in 2023, with a 2016–2023 CAGR of 12.7%, according to Statista. The demand for services such as customer support, data entry and software development in Vietnam’s offshoring market has notably risen. This surge is credited to the nation's proficient workforce, cost-effective services, and conducive business atmosphere. In addition, Vietnam's strategic location near key markets like China and Japan adds to its appeal for businesses seeking outsourcing solutions. A distinctive feature of Vietnam’s offshoring market lies in its abundance of small and medium-sized enterprises (SMEs) specialising in various services. These businesses often concentrate on specific niches such as gaming, animation, and e-commerce, enabling them to deliver customised solutions to their clients. Furthermore, the Vietnamese government is actively encouraging the growth of the nation's IT industry by offering incentives for companies to invest in research and development.

REAL ESTATE FOOTPRINT

Vietnam’s offshoring market is fragmented in terms of both industry sectors and company sizes, with 82% of key players consisting of SMEs. The IT sector predominantly occupies entire buildings concentrated in hi-tech parks to leverage tax incentives, while back-office operations and customer support and service companies are primarily situated in Grade C and B office buildings.

OUTLOOK

Looking forward to 2028, Vietnam’s offshoring market revenue is expected to reach USD 0.84 billion with a 2024–2028 CAGR of 8.78%, according to Statista. The offshoring market in Vietnam will continue to benefit from several macroeconomic factors, such as a sizable and youthful workforce, a conducive business climate, and the expanding middle class. Government initiatives aimed at fostering economic growth and attracting foreign investments will significantly contribute to the advancement of the offshoring sector. Furthermore, Vietnam's strategic geographical positioning and robust connections with key regional markets have positioned it as an appealing destination for companies seeking to expand their operations.

TOP THREE TRENDS/DRIVERS:

Cost-Effective Labour Force

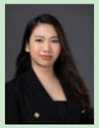
Vietnam's cost-effective labour force is a key attraction for outsourcing, as lower labour expenses in Vietnam, compared with Western countries and Asian peers, appeal to businesses seeking quality services at competitive rates. A notable trend in Vietnam’s offshoring market is the move towards higher-value services such as software development and research and development.

Skilled Workforce and Language Proficiency

96.1% of the total population is literate, with a ranking of 58th out of 113 countries and territories, placing Vietnam 7th in Asia for the Global English Proficiency Index 2023. A.T Kearney also ranked Vietnam 7th in its Global Services Location Index (GSLI) as a robust outsourcing destination.

Ongoing Infrastructure Development

Ongoing infrastructure development in information technology and telecommunications is notable, with the government making investments to enhance internet connectivity, data centres, and technological infrastructure, ensuring reliable and high-speed communication networks for offshoring companies.



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