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COMMERCIAL REAL ESTATE

Overseas Job Shift Affects Office Market

By TERRY PRISTIN

Operating out of a 200-square-foot, three-employee office in Times Square, Chris Graham tries to persuade companies to take their cue from Wall Street firms like Morgan Stanley and J. P. Morgan Chase and farm out some of their research needs to a developing country where educated employees usually earn a fraction of what Americans are paid.

"Our delivery team," Mr. Graham, the director of business development for Irevna North America, which describes itself as a research services outsourcing company, recently wrote one potential client, "is based in Madras, India, and is comprised of finance M.B.A.'s and C.P.A.'s with deep finance, accounting and analytical skills."

Pitches like Mr. Graham's are working. These days, in a trend that could have serious real estate implications, both Fortune 500 corporations and smaller companies are outsourcing not just their call centers to low-wage countries like India and the Philippines, but also operations like data collection, Web site inquiries, tax preparation, programming and quantitative analysis.

And the trend is accelerating, according to many analysts. Forrester Research, a technology research company in Cambridge, Mass., predicts that by 2017, 3.3 million back-office jobs in the United States will migrate to other countries, including China and Russia. Gartner, a research company in Stamford, Conn., describing offshore outsourcing as "an irreversible megatrend," said recently that as many as 500,000 information technology jobs might disappear from this country by the end of 2004. Of the people whose jobs are moved, the study said, fewer than 40 percent will find other work with their current employers.

Citing these forecasts, real estate specialists say the offshore migration could slow the recovery of the struggling United States office market. The average office vacancy rate nationwide is about 17.6 percent, PNC Real Estate Finance and the Grubb & Ellis Company reported last week.

Using Forrester's figures, Dale Anne Reiss, the global director for Ernst & Young's real estate, hospitality and construction practice, calculates that the demand for office space (based on an estimate of 220 square feet per employee) will drop by about 50 million square feet a year as jobs move overseas. In recent months, she said, 31,000 United States jobs have been lost to India. That number of office workers would normally occupy 7 million square feet, or an area the size of the central business district of Tampa, Fla.

Fortunately, call centers and other back offices are not concentrated in a single area or region. As a result, Ms. Reiss said, the loss of jobs will not necessarily be devastating to any one community but is likely to be felt most in what she described as marginal locations, casting a shadow over the market in general.

"It's just going to take longer to get the numbers down to palatable percentages," she said, referring to the vacancy rate.

A recent report by Torto Wheaton Research, a company owned by CB Richard Ellis, agrees that as job growth continues to slow in the United States, office vacancies will continue to increase slightly. Since early 2001, 105 million square feet of office space has emptied, said Raymond G. Torto, the company's managing director.

But as time goes on, Mr. Torto predicted, developers will adjust by simply building less space. "There will be minimal effects in the long term," Mr. Torto said. "It's a relatively small piece of the overall demand for office space."

The Torto Wheaton Report also said that offshore outsourcing could wind up benefiting some American employees. By getting some of their work done in India, companies may be able to "stretch their research budgets and keep people on staff in New York and London during times of shrinking budgets," the report said.

Taking issue with the forecasts, King R. White, a senior vice president for global site selection at Trammell Crow, said that he thought that fewer jobs would be lost to India in the future. "We've seen the initial rush in the last two years," he said. "Now there's a follow-up rush, but it's not going to compound annually."

In Mr. White's analysis, the vacant space resulting from exporting jobs offshore is more likely to amount to 10 million square feet a year, rather than 50 million.

Of the 146 new call centers employing at least 100 people that opened around the world in 2001, Trammell Crow found that 24 percent were in India and 5 percent in the Philippines. Last year, the Philippines again accounted for 5 percent of 166 new call centers, but India had only 14 percent, the report said.

Trammell Crow is one of several real estate companies based in the United States helping corporate clients locate and develop space overseas. Mr. White said his company recently found four floors of office space in Quezon City, Philippines, for RMH Teleservices, a large call-center outsourcing company based in Philadelphia, and helped get the building reclassified to make the tenant eligible for tax relief.

John B. Coppedge III, managing director for international operations for Cushman & Wakefield, said that corporations were increasingly demanding space overseas, in India and China, especially, but also in Eastern Europe. "If you were to take a snapshot," Mr. Coppedge said, "that business is three times what it was 18 months ago."

Peter Barge, the chief executive Jones Lang LaSalle Asia-Pacific, said his company was involved in 25 projects in India, most of it for back-office processing rather than high-technology functions. But he said costs in India were rising. "If the demand gets ahead of the supply," he said, "the costs go up and the competitive advantage narrows a bit."

Lower wages are not the only reason that companies are shifting jobs overseas. Technological advances have made it possible to offer round-the-clock service from different time zones.

In addition, a number of foreign governments offer tax relief and other incentives, and many companies are dispersing operations to avoid disruptions from a terrorist attack or other disaster. "Initially, it was to save money," said Daniel Malachuk, a senior managing director of CB Richard Ellis Consulting who advises corporations on where to locate their offices. "But now," he said, "it's also to have a portfolio of locations. People are saying, 'I want to spread my bet.' "

Mr. White of Trammell Crow said the cost of space in India and the Philippines is not much cheaper than it is in the United States, when building improvements are taken into account, but leases tend to be much shorter, 3 to 5 years, instead of 10, giving greater flexibility.

If offshore outsourcing has already had repercussions in the United States, they have not occurred in Salt Lake City, which has a heavy concentration of call centers, said William K. Martin, a co-owner of Colliers Commerce CRG, a commercial real estate company in that city. After the collapse of the dot-com industry, about 350,000 square feet of call-center space emptied out, but about a third of it has since been filled, Mr. Martin said.

"We're not feeling the offshore issue," he said.

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