Innovation and growth are strategic imperatives for technology companies. In order to respond to a quickly changing environment, win the market share race and seize the advantage of disruptive innovation, technology companies have to be dynamic, fluid and bold. This involves a high degree of risk, which many are willing to take in anticipation of future rewards.

Jones Lang LaSalle’s Global Corporate Real Estate (CRE) Trends 2013 confirmed that companies around the world plan to increase their real estate portfolios in emerging markets. Zooming into the technology sector, respondents reveal that technology companies are among the most aggressive in pursuing growth opportunities and expanding their footprint in emerging markets. This pursuit, however, exposes them to a diverse set of risks associated with new markets and pressures to support this growth with flexible and efficient portfolios.

Please refer to Jones Lang LaSalle’s Global Corporate Real Estate Trends 2013 report for additional information.

We have identified four themes pertinent to CRE of global technology companies:

1. Aggressive portfolio expansion in emerging markets
2. Flexibility required for optimal portfolios
3. Fast progress of outsourced delivery
4. Lack of capabilities to support growth
Among all sectors, technology companies are the most prone to take calculated risks. According to our survey results, one-third of technology CRE executives confirmed that their companies have become less risk averse since 2010, compared with only a quarter of companies from other sectors¹ (Fig. 1). This increasing appetite for risk is linked to expansion strategies aimed at exploiting commercial opportunities, particularly in emerging markets.

**Figure 1: Degree of risk aversion**

<table>
<thead>
<tr>
<th>Risk Aversion</th>
<th>Technology</th>
<th>Other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>More risk averse</td>
<td>42%</td>
<td>34%</td>
</tr>
<tr>
<td>Less risk averse</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>No change</td>
<td>28%</td>
<td>42%</td>
</tr>
</tbody>
</table>

**Question:** Compared to 2010, how would you rate your business’ attitude toward risk (appetite for growth versus operational risk)?

While most companies globally are looking to increase their real estate portfolios in emerging markets, the technology sector is planning a much more aggressive expansion. Technology companies’ expectations to increase their portfolios in Brazil, Russia, India and China (BRIC) are higher than the average for other sectors, with 30%+ planned net portfolio growth in these key markets (Fig. 2). As can be expected, technology leads all other sectors in planned portfolio expansion in India, with a significantly higher percentage of respondents indicating an increase of their portfolios (58% versus 38% in other sectors)².

Facing labor costs and pricing pressures in their home markets, technology companies are lured by low-cost markets in Central and Eastern Europe (CEE) and Southeast Asia (SEA). Forty-three percent of technology respondents indicate that they will increase their portfolios in CEE (compared with 22% in other sectors), while 36% (versus 21% in other sectors) also look to pursue growth opportunities in SEA (Map 1).

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¹Other sectors include: banking/financial services, consumer products, retail, government, energy, pharmaceuticals/life sciences and other sectors.
²For more details about CRE trends in India, refer to Jones Lang LaSalle’s report, ‘On the Verge of Transformation. India CRE trends 2013’.
In addition to cost incentives, these growth economies are also experiencing a rapid
development of the middle class, with an ever more sophisticated consumer base embracing
high-tech products and services. Consequently, technology multinational corporations
(MNCs) are shifting their focus and are moving to where their consumers are.

While these countries are still quite far from producing the next Silicon Valley, many of them
are developing leading-edge technology parks and research and development centers that
offer modern infrastructure, skilled labor force and low operating costs. Although we do not
expect western technology MNCs to migrate their global headquarters to growth markets,
they are very likely to build new regional headquarters to strengthen their presence in these
markets.

**Map 1: Net portfolio growth anticipated over the next three years (technology sector)**

*Question:* Over the next three years, how will your portfolio evolve in each of the following regions?

*Note:* Net portfolio growth percentages in this map are obtained by deducting responses
anticipating portfolios to decrease from responses anticipating portfolios to increase.

*Other possible responses* (‘remain the same’, ‘do not know’ and ‘not applicable’) were left out.
Although the map on the previous page shows negative portfolio growth in North America, it should be noted that this trend varies significantly, depending on company size and business model. Larger and more established technology firms and hardware companies are aggressively optimizing their portfolios in established markets and consolidating when possible. Conversely, most Internet firms and start-ups remain in growth mode and continue expanding in developed countries’ technology hubs.

**Figure 2: Top ten countries/regions by net portfolio growth**

<table>
<thead>
<tr>
<th>Region</th>
<th>Technology</th>
<th>Other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>57%</td>
<td>41%</td>
</tr>
<tr>
<td>India</td>
<td>51%</td>
<td>35%</td>
</tr>
<tr>
<td>Brazil</td>
<td>39%</td>
<td>30%</td>
</tr>
<tr>
<td>Russia</td>
<td>36%</td>
<td>20%</td>
</tr>
<tr>
<td>CEE</td>
<td>33%</td>
<td>14%</td>
</tr>
<tr>
<td>SEA</td>
<td>32%</td>
<td>21%</td>
</tr>
<tr>
<td>Mexico</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Rest of APAC</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>UAE</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Flexible real estate portfolios are required to support growth

"Emerging markets typically require different approaches, processes and governance policies compared to more developed markets... Each new market therefore has the potential to add significant amounts of complexity to a company's global operating model."

Accenture
Emerging Market Entry Keys to Success, July 2013

To support this geographic expansion, CRE executives from technology companies will be spending more of their time on emerging markets—over a quarter of respondents will dedicate more than half of their time, while 63% will spend up to 50% of their time on emerging markets.

Furthermore, the scope of their responsibilities is more global and regional, as opposed to other sectors where many CRE tasks continue to be carried out at a country level (Fig. 3). This can be explained by the unique characteristics of the technology sector, such as network effects (social media), first-mover advantage for pioneering firms and large customer base (users with similar needs and tastes for technology products across potential country markets). These growth drivers incited technology companies to employ early globalization strategies that required prompt support of CRE departments to manage global portfolios.

**Figure 3: Geographic scope of CRE responsibilities**

<table>
<thead>
<tr>
<th></th>
<th>Global</th>
<th>Regional</th>
<th>Country</th>
<th>City</th>
<th>Site specific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>38%</td>
<td>44%</td>
<td>38%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Other sectors</td>
<td>31%</td>
<td>31%</td>
<td>38%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Question:** What is the geographic scope of your current CRE responsibilities?

CRE executives engaged in emerging markets expansion are expected to have their hands full, as the demands of senior leadership for growth, portfolio productivity and flexibility have been increasing significantly and add to the already pressurized agenda being set for all CRE professionals. (Fig.4)

Technology CRE executives will not only have to deliver a platform for growth, but must also ensure that this platform is flexible and can accommodate rapid shifts in business priorities. Creating on-demand spaces and enabling remote and mobile working to cater to a younger generation of workers, as well as increasing the utilization and productivity of the formal real estate portfolio are just a few examples of what is now expected from the CRE function.
Let’s also not forget about unconventional workplace designs which have become a part of technology industry culture and a differentiating factor as technology firms compete for high-caliber talent. Office spaces are designed to be ‘cool’ and relaxed to boost creativity and innovation on which the industry thrives. At the same time, the working environment has to be conducive to employee interactions. The demand for other workplace perks such as bowling alleys, swimming pools, multiple food facilities, etc. add even more complexity to the requirement to create and manage efficient work spaces. CRE teams have to collaborate with other corporate functions, such as HR and IT, to ensure the workplace is productive, comfortable and attractive for new employees.

**Figure 4: Senior leadership demands being placed on CRE**

<table>
<thead>
<tr>
<th>Demands linked to growth</th>
<th>Technology</th>
<th>Other Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limiting exposure to future real estate costs</td>
<td>71%</td>
<td>61%</td>
</tr>
<tr>
<td>Creating on-demand space for the business, bringing more flexibility to the leasehold portfolio</td>
<td>66%</td>
<td>54%</td>
</tr>
<tr>
<td>Delivering a platform for growth in select markets</td>
<td>64%</td>
<td>42%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demands linked to portfolio productivity and flexibility</th>
<th>Technology</th>
<th>Other Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing the utilization of existing buildings in the portfolio</td>
<td>85%</td>
<td>74%</td>
</tr>
<tr>
<td>Enhancing productivity of the real estate portfolio</td>
<td>74%</td>
<td>67%</td>
</tr>
<tr>
<td>Enabling remote or mobile working</td>
<td>59%</td>
<td>54%</td>
</tr>
</tbody>
</table>

**Question:** How are the demands of senior leadership/C-suite on the CRE team changing in the following areas? (Those who responded that demands are increasing)

Technology portfolios are arguably the most flexible across all sectors, and technology companies are leaders in recognizing the need for quickly retreating from one market while scaling up in another. Frequent relocations are prompted by search for better talent, tax incentive packages offered by governments, emerging technology hubs and consolidation stemming from mergers and acquisitions, among others.
Speed of geographic expansion fuelling outsourcing

“As companies look to expand beyond their borders to create global brands,... increasingly, more companies are turning to business outsourcing as one of the ways to maintain their competitive edge.”

Lim Kok Hin
Vice President and Head of Domestic Business Operations
Canon Singapore, in IDG Connect August 2013

The pressure to deliver effective and flexible portfolios while expanding rapidly across geographies has resulted in higher reliance on outsourced solutions. Today, only 5% of technology companies do not outsource any kind of CRE services. In addition, technology companies have the most strategic attitude toward outsourcing among all sectors—37% of respondents consider outsourcing as a strategic relationship where strategic value is assessed over the long term (compared with 29% in other sectors), as opposed to a tactical transaction mainly with a lower-cost supplier.

The drive toward outsourcing can be attributed to a combination of factors, ranging from the sector-wide familiarity with outsourcing (as clients or as suppliers) to the pronounced tendency to focus on core activities. Furthermore, outsourcing decreases the risk of operating in unfamiliar markets and aligns the rapidly growing number of real estate assets with global portfolio strategies.

Lease administration—already outsourced to a higher degree in technology companies, compared to other sectors—is expected to be outsourced even more in three years’ time. According to technology sector respondents, almost 40% will fully outsource this service in three years, compared with 26% in other sectors (Fig. 5). Outsourcing lease administration allows companies to keep better track of their portfolios and anticipate upcoming changes in leased assets. In fact, over a quarter of technology companies indicated that their ability to extract real estate metrics had improved because of outsourcing lease administration to service providers.

Technology companies plan to accelerate their outsourcing levels in other CRE services as well. The outsourced delivery of portfolio and facilities management is expected to increase significantly—the number of technology companies fully outsourcing this service will double, from 17% currently to 34% in three years’ time. A similar dynamic is expected for property management and transactions services—full-scale outsourcing is progressing much faster in technology firms than in other sectors.

**Figure 5. CRE services expected to be fully outsourced in three years’ time**

<table>
<thead>
<tr>
<th>Service</th>
<th>Technology</th>
<th>Other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease administration</td>
<td>39%</td>
<td>26%</td>
</tr>
<tr>
<td>Portfolio and facilities management</td>
<td>34%</td>
<td>19%</td>
</tr>
<tr>
<td>Property management</td>
<td>33%</td>
<td>21%</td>
</tr>
<tr>
<td>Transaction services</td>
<td>32%</td>
<td>21%</td>
</tr>
<tr>
<td>Project management/build-out/design</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Energy and sustainability services</td>
<td>26%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Question:** How would you best describe the delivery of the following CRE services three years from now?
Challenges associated with portfolio growth in emerging markets

“There is a large gap between the aspirations of multinational companies in emerging markets and their performance on key capabilities.”

BCG
Playing to Win in Emerging Markets
September 2013

There are a number of challenges technology companies will face when expanding to emerging markets. The first is related to transparency issues. Respondents from the technology sector feel that real estate market transparency is even more important than political or economic transparency when expanding to emerging markets. Many also indicate that the lack of suitable real estate offer represents a major challenge. With frequent real estate transactions, navigating low-transparent and opaque markets may lead to disruptions in operations and additional costs.

While the CRE function is well established in technology companies, it is not always efficient. In particular, smaller companies require more in-house CRE professionals to support rapid global growth (in our sample, there was one CRE executive per 708 full-time employees in technology companies with 1,000–10,000 employees, compared to a global average for all company sizes of approximately 1:4,000). As expansion to emerging markets increases, these companies will need to engage even more CRE professionals to support growth.

In addition, the active involvement of procurement departments in CRE is often not efficient, as they may lack knowledge about procuring CRE services. In fact, only 36% of respondents consider their procurement departments to be knowledgeable about CRE, which is the lowest among all sectors.

Last but not least, technology companies are facing challenges in forecasting real estate costs and planning portfolios. While one reason could be the unavailability of information in emerging markets, another might be the lack of internal capabilities to generate timely insights on portfolio performance. A third of technology respondents indicated that the lack of effective data and analytics to measure value is one of the top constraints hindering CRE from establishing itself as a strategic value add.
Conclusion

Although expansion into emerging markets is a critical prerequisite for growth in the technology sector, companies should be aware of the risks associated with their real estate portfolios. Operating in non-transparent, emerging markets with limited real estate information can slow down the expansion process, expected speed-to-market and future sales. Hence, delays in delivering a platform for growth may cause increased operating costs.

Technology companies will need to invest in their CRE teams to ensure that they are well equipped to support business growth and are able to respond to increasing demands from senior leadership. They will also need to implement more tools and systems to gather and analyze portfolio and market data, which will enable them to react to changing environments and business needs. These could include occupancy planning tools, lease administration systems, portfolio dashboards and financial modeling.

With increasing outsourcing requirements, technology companies will also benefit from extending their partnerships with external service providers, who are more familiar with target markets and can provide faster and more advantageous real estate solutions.

About the Survey

Responses by organization size (number of employees)

- 12% 1,000 - 5,000
- 12% 5,001 - 10,000
- 26% 10,001 - 50,000
- 16% 50,001 - 100,000
- 33% Over 100,000

Note: Percentages may not equal to 100% due to rounding

Responses by region where respondents are based

- 40% Americas
- 34% Asia Pacific
- 26% Europe, Middle East and Africa
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About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. With annual revenue of USD 3.9 billion, Jones Lang LaSalle operates in 70 countries from more than 1,000 locations worldwide. On behalf of its clients, the firm provides management and real estate outsourcing services to a property portfolio of 2.6 billion square feet. Its investment management business, LaSalle Investment Management, has USD 47.0 billion of real estate assets under management.

About Jones Lang LaSalle Corporate Solutions a leader in the real estate outsourcing field, Jones Lang LaSalle's Corporate Solutions business helps corporations improve productivity in the cost, efficiency and performance of their national, regional or global real estate portfolios by creating outsourcing partnerships to manage and execute a range of corporate real estate services. This service delivery capability helps corporations improve business performance, particularly as companies turn to the outsourcing of their real estate activity as a way to manage expenses and enhance profitability.

Acknowledgements

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Visit www.jll.com/globalCREtrends to explore the global trends in more detail. See how CRE executives based in your region responded and compare your answers with the global survey results.