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AGUIRRE NEWMAN

SHARED SERVICE CENTRES IN PORTUGAL

A Real Estate Approach · APRIL 2018

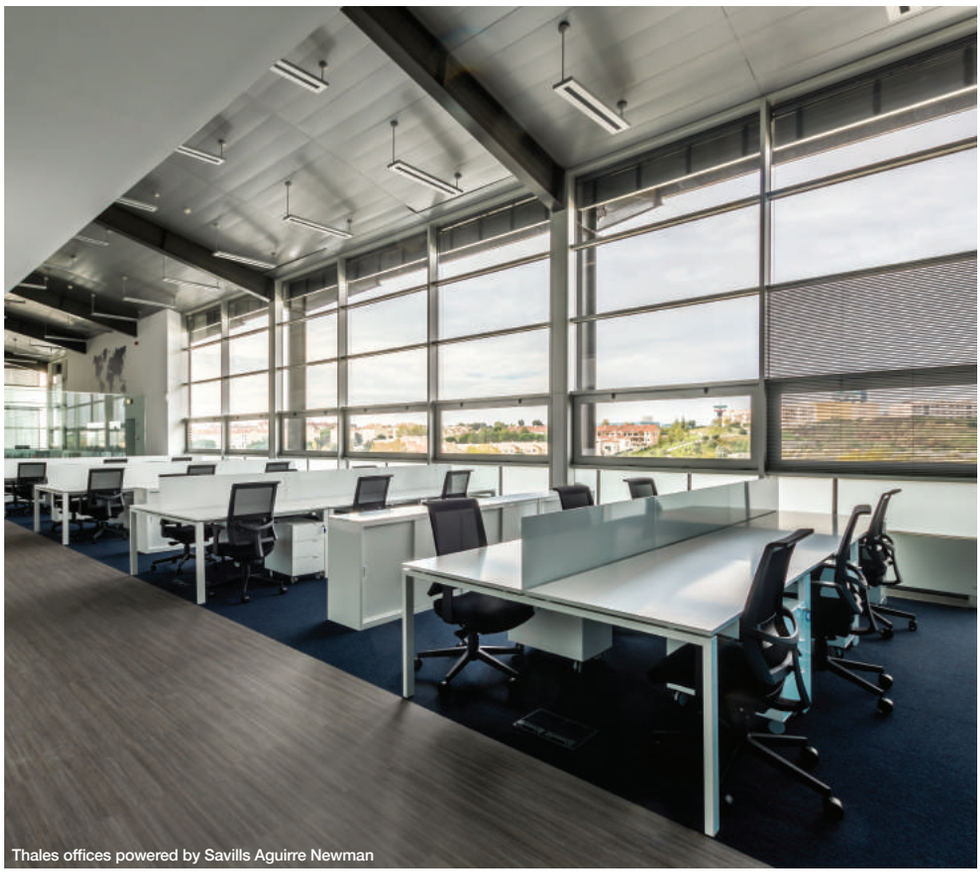
INTRODUCTION

Business Services – Overview

> A Business Service is a service that is delivered to business customers by Business Units. For example delivery of financial services to customers of a bank, or goods to the customers of a retail store. Successful delivery of Business Services often depends on one or more supporting services.

– By ITIL (Information Technology Infrastructure Library)

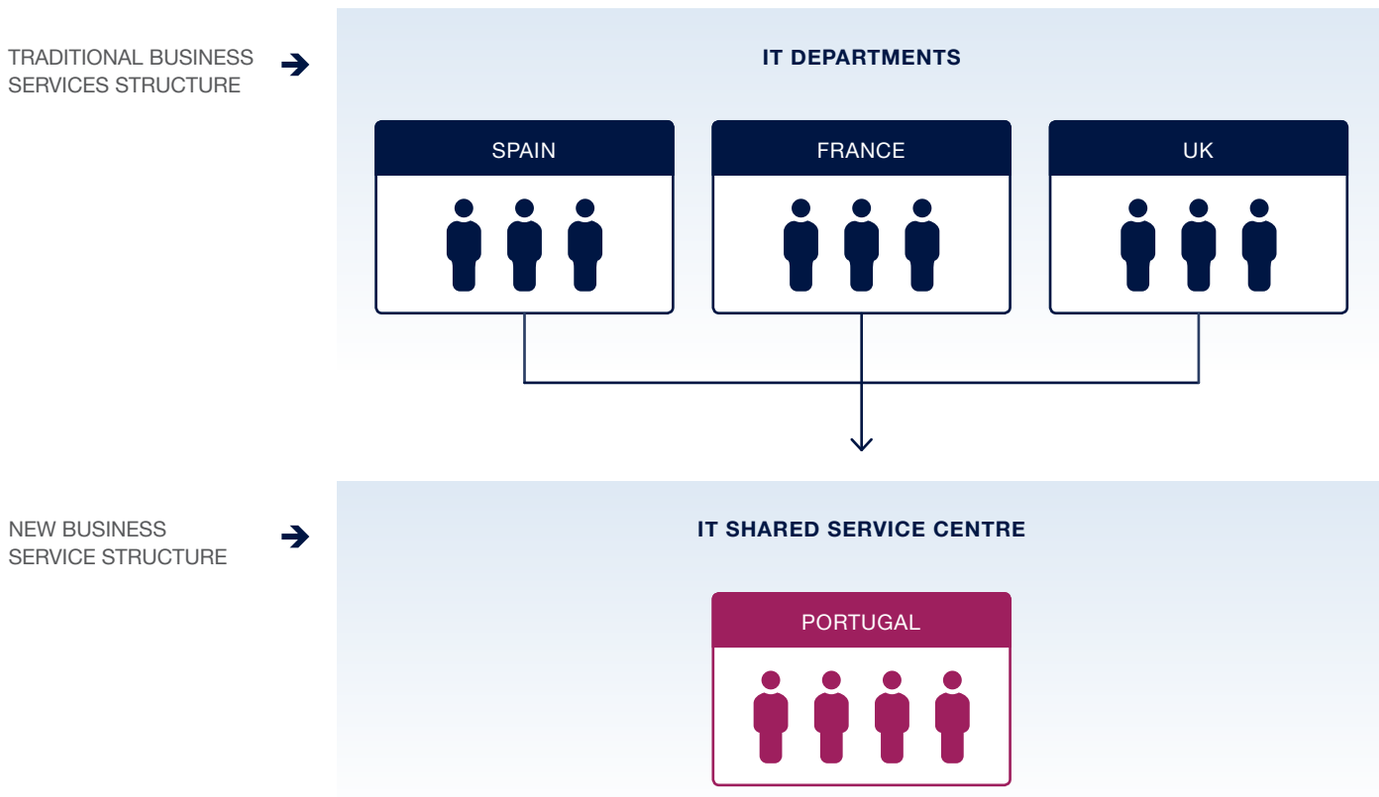
Due to the rising number of companies demanding an optimisation of Business Services, we have seen an evolution of that concept in organisations. Business Services have been traditionally provided by departments of organisations that include people, processes and technologies and have worked through this model during several decades. However, as a result of technological developments and many new priorities for companies, this concept has improved to "Shared Service Centres" (SSC) in the last few years. A Shared Service Centre is a structured and centralised point of service focused on a specific business function. Typically, these functions are regarding departments as Human Resources, Accounting, CRM, IT and, recently, Centres of Excellence. Centres of Excellence tend to be centres where best practices are shared and new research activity is developed and they have recently been gaining importance.



Thales offices powered by Savills Aguirre Newman

IMAGE 1

Scheme of Business Services Evolution



Source: Savills Aguirre Newman

There are a number of Shared services currently operating across several organisations across the globe. The characteristics of the business world, as well as, the top priorities of companies have led them to take advantage of some global trends:

- Few geographical barriers across countries
- Increase in languages skills
- Costs of optimisation as a primary concern
- Customisation of services and multi-functional units

The exploiting of these features by organisations allows them to benefit internally in several areas:

- Company growth
- Cost reduction
- improvement of quality services
- Tax benefits/Fewer tax regulations
- Improvements in labour productivity

According to Deloitte's latest report "Global Shared Services", the number of SSC has been increasing, with Finance, Human Resources and Information Technology being the most sought areas for these centres. There has been a significant development of centres across global organisations, and figures show that in 2015 only 20% of SSC had more than three functions while in 2017 this value grew to 53%. Additionally, this study reveals that 45% of company headquarters are located in Europe benefiting from close proximity to headquarters or existing operations.

In the last few years, this trend has been growing and becoming more dynamic across Portugal. Many Shared Service Centres were opened, mainly in the Lisbon and Porto markets. Since the beginning of 2000, many companies have come to Portugal to establish their Shared Service Centres, with the number of organisations choosing Portugal for this purpose, by 2015, following the economic crisis.

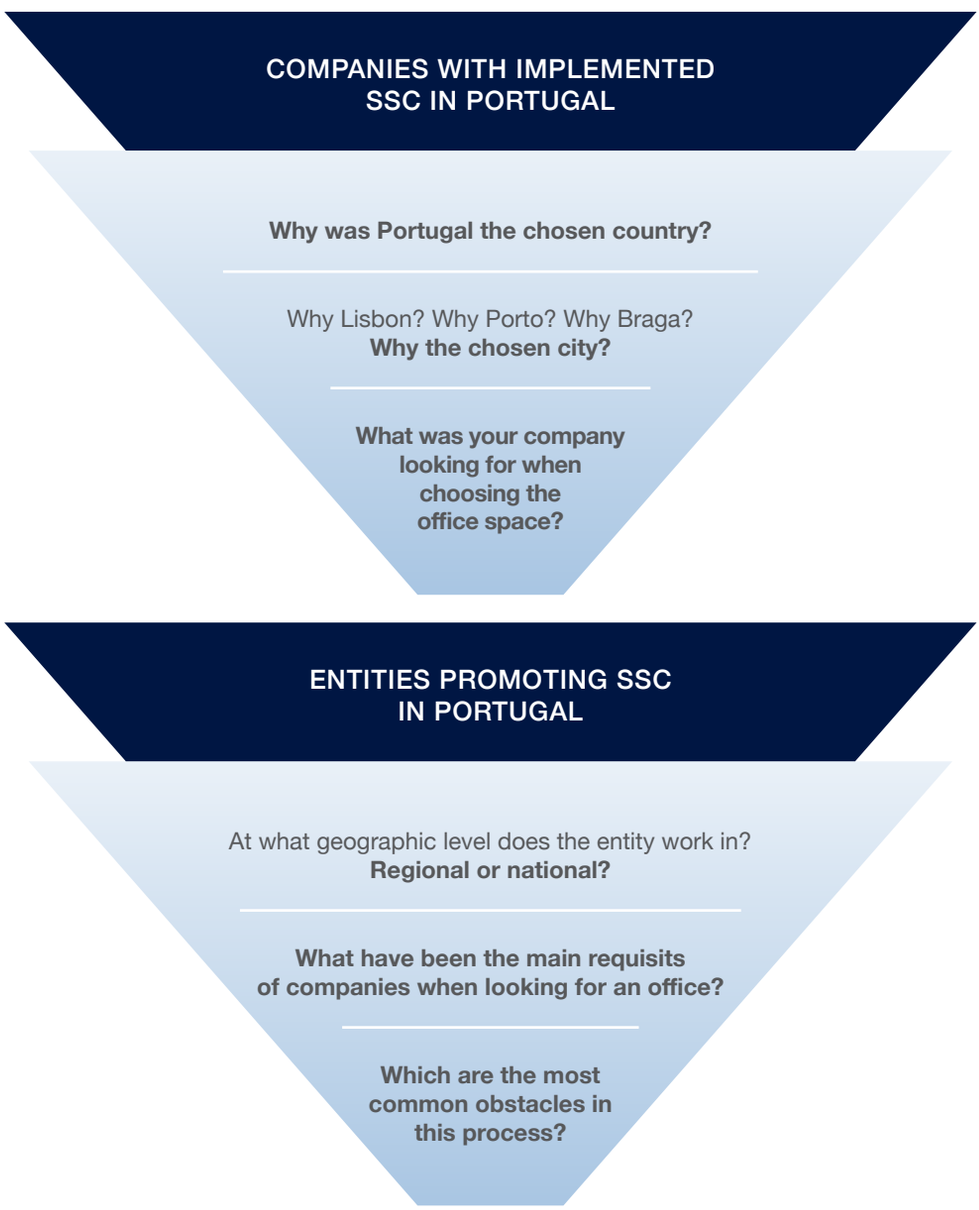
Objectives and Methodology of this Study

The main objective of this study is to better understand the Shared Service Centres market in Portugal. Many studies have been released on this topic, although a deep understanding from a real estate perspective is missing and is necessary. The main purpose of this study is to appreciate the reasons that led companies to choose Portugal as the location for the centres, as well as their needs in terms of office space.

In order to gather information close to stakeholders that have been impacted this market in Portugal, during the 2nd half of 2017 we conducted several interviews. We structured meetings with business executives of companies that have Shared Service Centres in Portugal and we also established contact with entities that are promoting the attractiveness of Portugal for the Shared Service Implementation. The information gathered from these stakeholders were different, taking into account their role in the market. Below guidelines for the meetings conducted are presented.

IMAGE 2

Guideline of the interviews



SHARED SERVICE CENTRES IN PORTUGAL – A REAL ESTATE APROACH

Key Factors When Choosing Portugal for a Business Centre

- Quality of Staff
- Geographical Location
- Accessibility
- Political Stability
- Real Estate Pricing

The main objective of this chapter is to understand the rationale and motivations behind companies' decisions when choosing Portugal and a specific region for the Business Centre implementation.

According to the companies surveyed, the top factor of attractiveness of Portugal, quality of staff, at a very competitive cost. A recent study developed by EY on "*Business Service Centres in Portugal*" in 2015 reveals more than 90% of companies considered Portuguese labour skills an attractive characteristic and one of their top priorities. In Portugal, there are very reputable universities that deliver very highly qualified people in several areas (IT, Engineering, Management, etc). Additionally, the Portuguese aptitude for foreign languages is viewed favourably by companies and languages such as Spanish and German have also been on the increase.

There are other positive aspects valued by companies such as the centrality, accessibility as well as the quality of infrastructures of the country. In the EY study, those features are appointed in the top five features required by companies. Moreover, due to the current environment in Europe, Portugal is considered a stable country. The low price of prime office rents in comparison with other European countries is an additional factor in the attractiveness of Portugal.

>73.000

Graduated students per year

Source: INE 2016

40,1%

Students studied 2 or more foreign languages

Source: Eurostat 2016

3rd Peaceful Country

Global Peace Index 2017

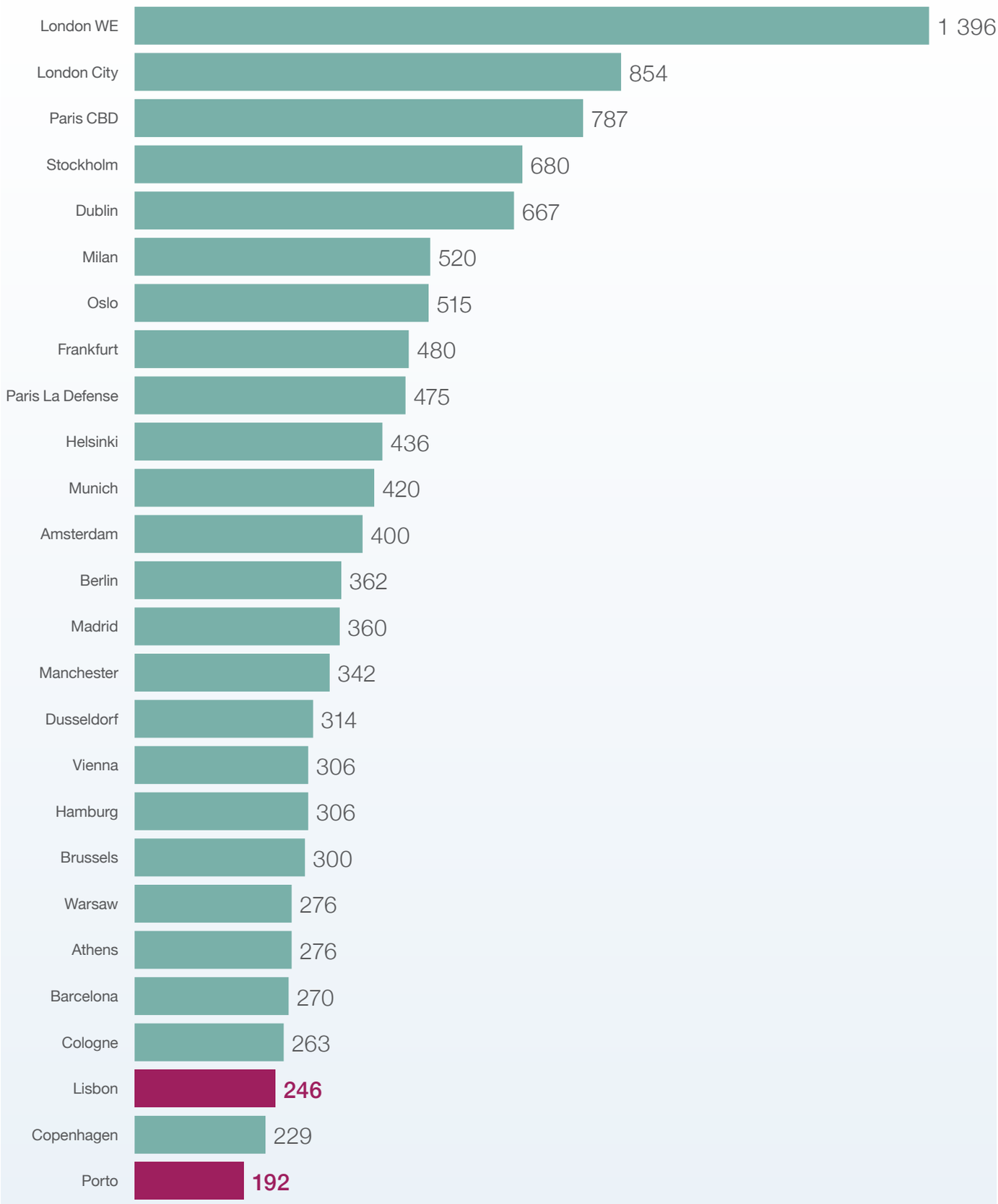
Strategic Location

Time zone UTC/ GMT
Maximum 4 hours flight distance from main European cities
Proximity to American continent

Source: Eurostat 2016

GRAPH 1

Prime Rents (€/sq.m./year)



Source: Savills Aguirre Newman

Choosing a Specific Region in Portugal

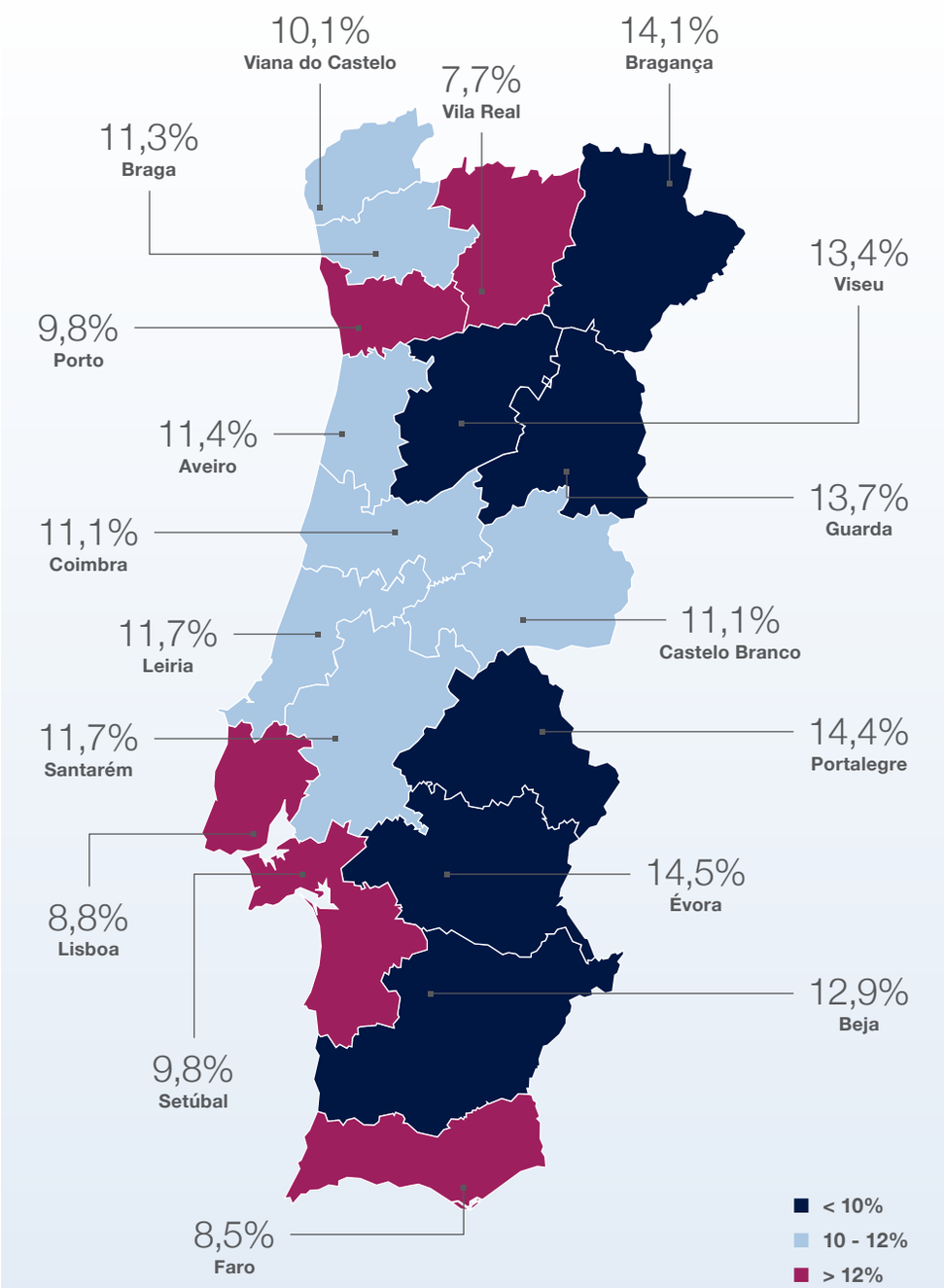
The process of choosing a place to establish a Business Service office is rarely a simple process. After choosing Portugal, organisations need to evaluate office premises in order to open their centres in the most suitable area. Based on our survey the decision of choosing a city relies mainly on the evaluation of the following factors: Staff profile: tend to hire young people (< 30 years), due to the flexibility and lower salaries.

Staff availability: When talking about staff numbers, the evaluation of locations is mainly focused on the unemployment level.

MAP 1

Youth Unemployment Rate in Portugal

*Young people (<25 y.o)



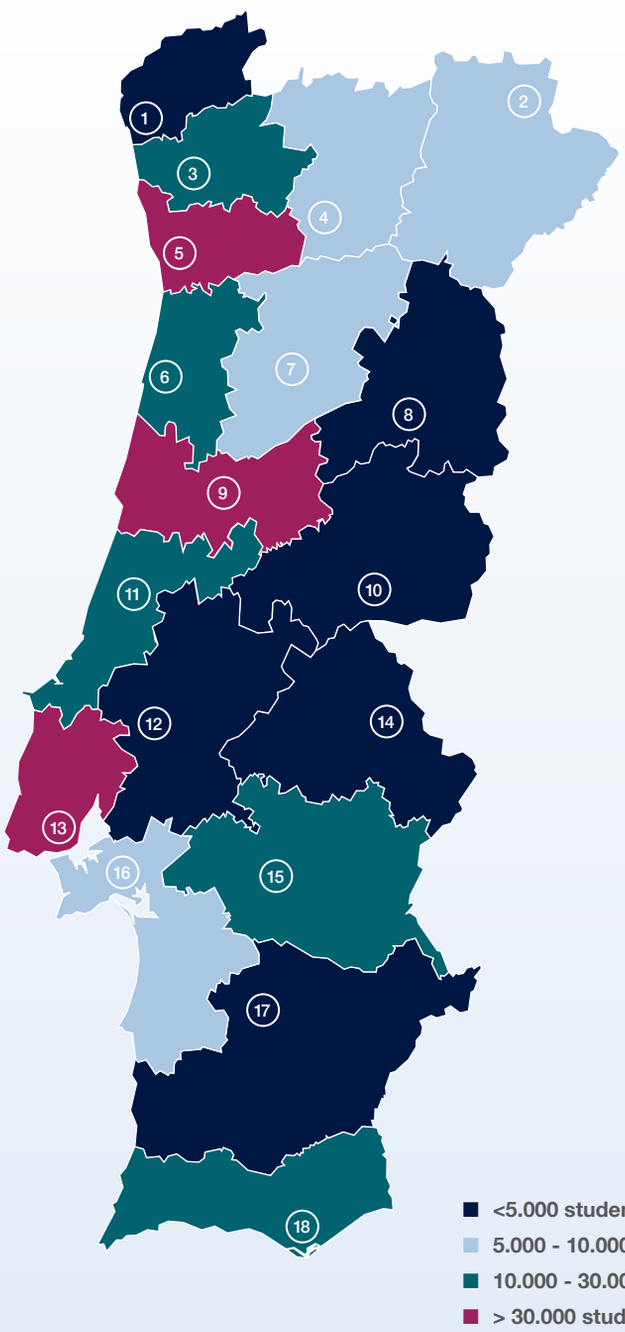
Source: Savills Aguirre Newman

Quality of Staff: tend to select a city surrounded by universities.
When the main criteria is the quality of staff, the location of educational institutions might be crucial for the decision. The locations in which there are more institutions and students, usually, represent a wealth of knowledge and, therefore, are a factor

MAP 2

Number of Students in Portugal

1. **Instituto Politécnico de Viana do Castelo**
   4.200 students
2. **Instituto Politécnico de Bragança**
   7.000 students
3. **Universidade do Minho**
   19.500 students
4. **Universidade de Trás-os-Montes e Alto Douro**
   7.700 students
5. **Universidade do Porto**
   31.000 students
   Universidade Fernando Pessoa
   5.000 students
   Universidade Lusíada do Porto
   3.400 students
6. **Universidade de Aveiro**
   15.000 students
7. **Instituto Politécnico de Viseu**
   6.320 students
8. **Instituto Politécnico da Guarda**
   4.200 students
9. **Universidade de Coimbra**
   22.700 students
   Instituto Politécnico de Coimbra
   11.000 students
10. **Instituto Politécnico de Castelo Branco**
    3.700 students
11. **Instituto Politécnico de Leiria**
    11.000 students
12. **Instituto Politécnico de Santarém**
13. **High School Lisbon Institutions**
    140.000 students
14. **Instituto Politécnico de Portalegre**
15. **Universidade de Évora**
    10.500 students
16. **Instituto Politécnico de Setúbal**
    5.500 students
    Instituto Superior de Ciências da Saúde Egas Moniz
    1.300 students
17. **Instituto Politécnico de Beja**
    3.500 students
18. **Universidade do Algarve**
    10.000 students



Source: Savills Aguirre Newman

We have conducted a basic cross analysis of the following factors: youth unemployment rate, number of qualified people and the size of the resident population. Considering the information on the maps, "Amount of Students Enrolled in Portuguese Universities" and "Young Unemployment Rate in Portugal", it is possible to describe the following scenarios:

A:

If a company prioritises **skilled personelle**, the most appropriate location would be one of the major university cities such as Lisbon, Porto, Braga or Coimbra.

B:

If a company prioritises **available personelle**, the most appropriate city would be for example, Bragança, Portalegre or Évora.

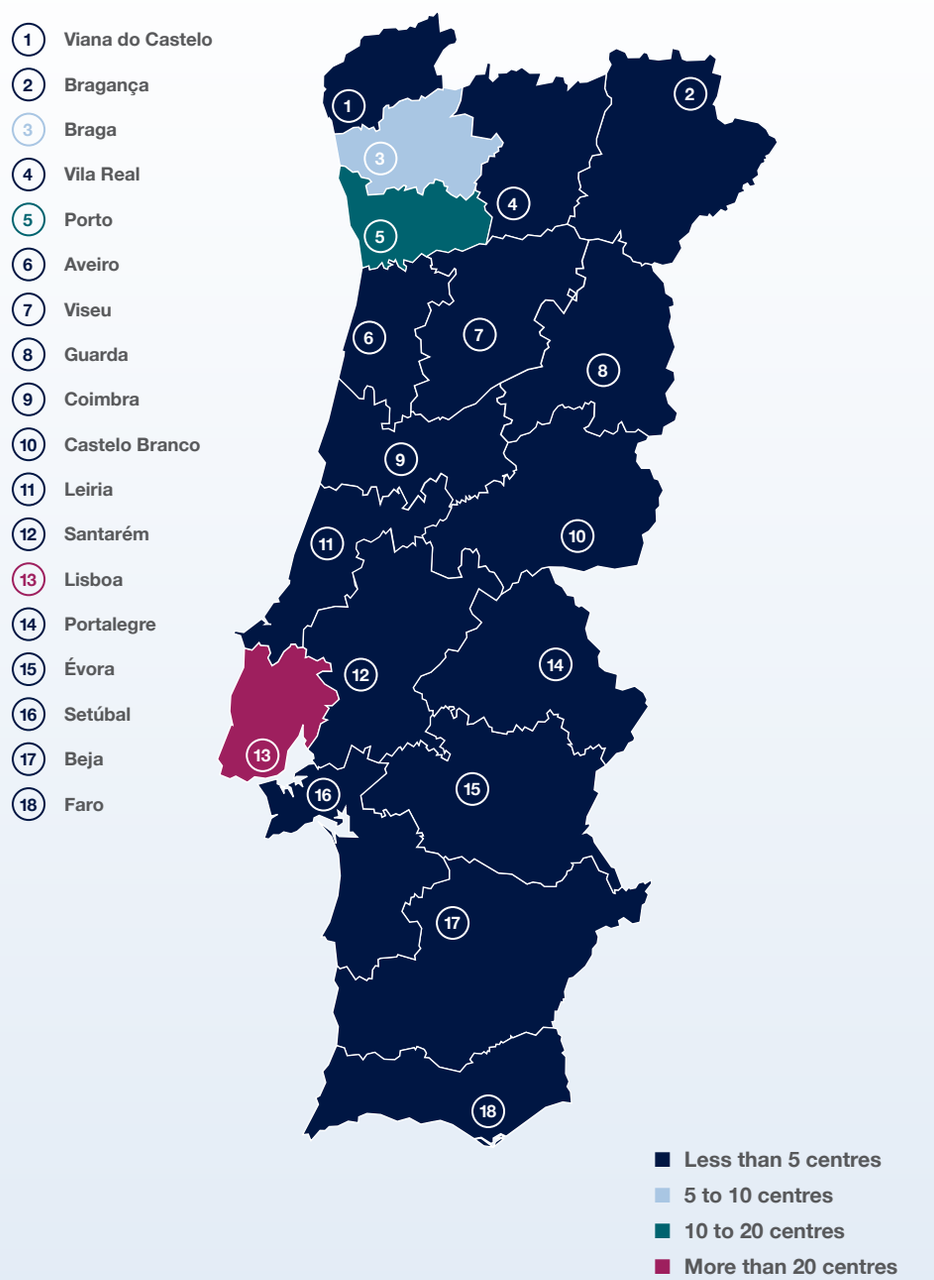
As it is expected, companies' criteria are not limited to those two aspects. Organisations also appointed other features they require in the cities chosen such as transport, infrastructures costs, cost of living and proximity to airport.

To reach a final decision, these attributes are measured in a detailed business analysis among the identified locations.

	Available Personelle	Skilled Personelle	Potential Locations (or surroundings)
A	-	+	Lisbon, Porto, Braga, Coimbra
B	+	-	Bragança, Portalegre, Évora

MAP 3

Distribution of Business Service Centres in Portugal



Source: Savills Aguirre Newman

Promoting the Country, Promoting the Region

In the last few years, Portugal has seen several companies looking for offices to establish their Business Centres, being this a result of country characteristics and also a consequence of the promotion developed by several institutional entities.

The main competitor locations of Portugal for Business Centres are Spain and Eastern European countries. In order to promote the competitive advantages of Portugal, some entities have been responsible for promoting and creating conditions to attract companies to invest. There are organisations with a more global approach while others take a more regional focus. The regional companies usually offer incentives, both fiscal and financial, in order to create better conditions to implement the centres in those locations/regions.

Global Approach

aicep Portugal Global - Trade & Investment Agency is a government business entity, created in 2007, focused in encouraging the best foreign companies to invest in Portugal and contribute to the success of Portuguese companies abroad in their internationalisation processes or export activities

This entity helps finding the business partner that best matches clients request for Portuguese products or services and have a global network at their services to better understand and help identifying the Portuguese brand, sector, product or service.

aicep Portugal Global Group also includes aicep Global Parques - an industrial parks management entity that helps in the process of choosing the best location for a business.

aicep Portugal mission is to offer global business location solutions and are also dedicated to the provision of procurement services for the establishment of business activities in the national territory and support the installation of companies.

aicep Portugal Global

Source: Global Parques.pt

Regional Approach

The promotion at a local level is done by municipalities and local governmental institutions. During the last years, several city councils created Investor Support Offices (in Portuguese "Gabinetes de Apoio ao Investidor") with the main purpose of stimulating the economic agents, promoting business activities of the county and providing a service to support citizens and entrepreneurs. In order to be more effective, several municipalities have created attractive brand names for those vehicles, to better communicate and promote themselves as good locations for investment.

Analysing from north to south of Portugal, the municipalities' most common incentives for investment:

TABLE 1

Main incentives for investment

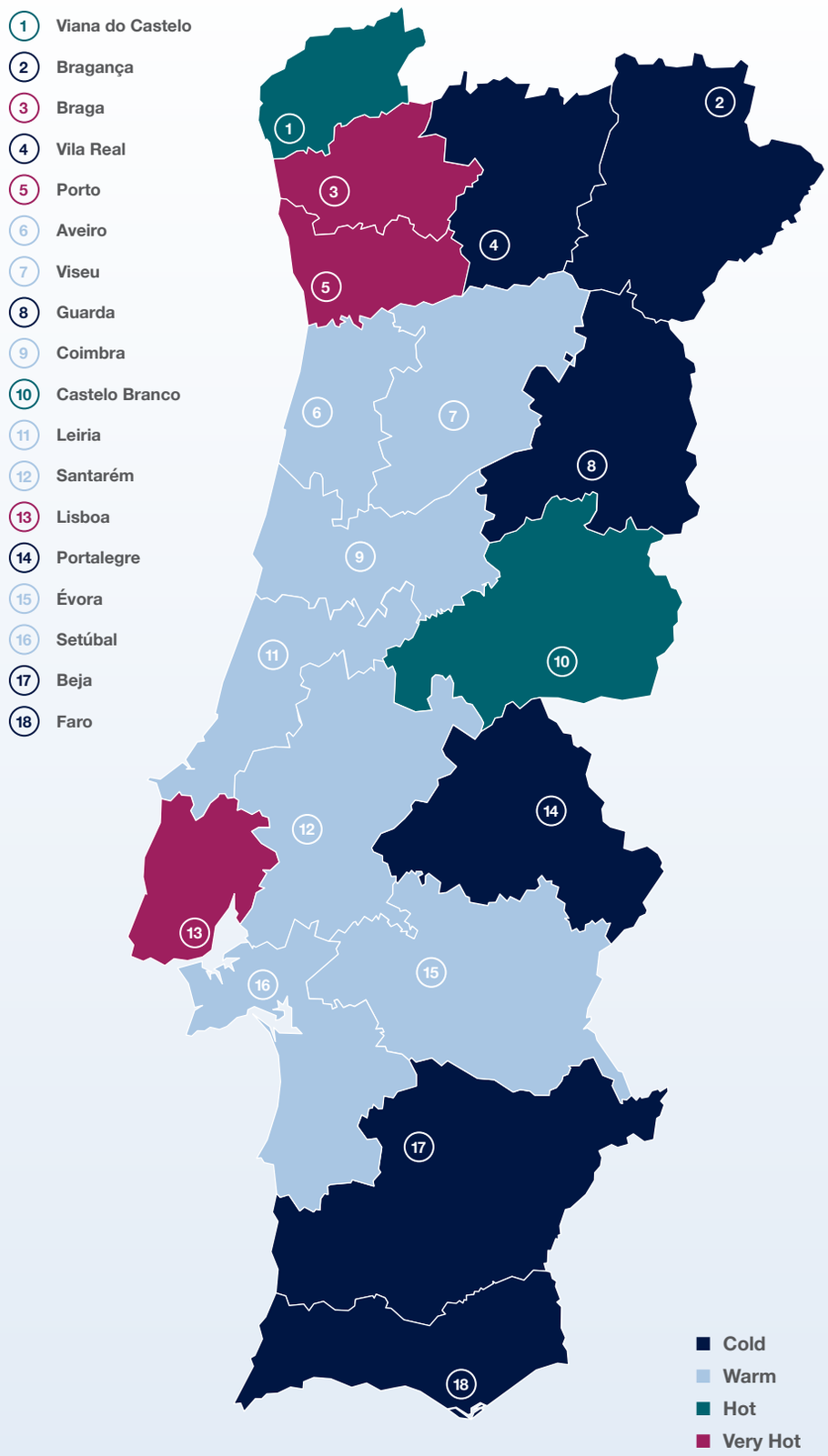
Reduction of Municipal Tax for Real Estate (Portuguese acronym - IMI), managed by the city councils	Reduction of the Derrama is applied to companies with a turnover of less than an amount established by the different councils 150 thousand euros per year. Derrama is a municipal tax on business profits that is levied on the taxable income of the exercise of legal persons, before deducting tax losses.
Granting of fiscal benefits in the taxes to whose revenue the Municipality is entitled, under the terms of the law and of this regulation;	Exemption of licensing fees up to 100%
	Support in the search of facilities tailored to the type of business

Source: Savills Aguirre Newman

Taking into account the initiatives taken by municipalities and the characteristics of the regions, it is possible to map the most and less dynamic areas.

MAP 4

Dynamic Regions for Companies Investment in Portugal



Source: Savills Aguirre Newman

Office Space Needs

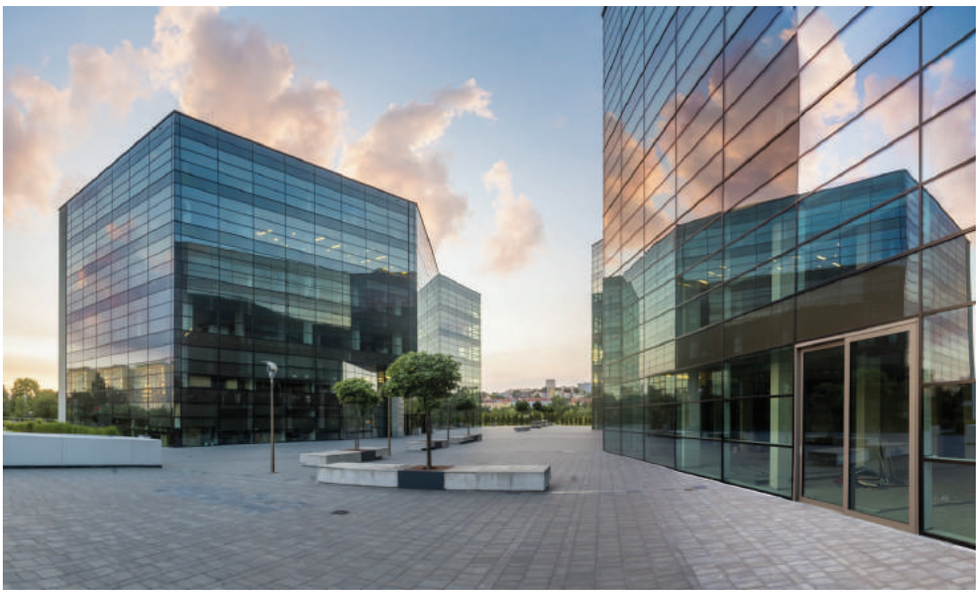
When it comes to choose an office building, companies have specific requirements and preferences regarding the building characteristics. Frequently not all the requirements are fulfilled and satisfied due to limitations and characteristics of supply.

PUBLIC TRANSPORTS ACCESSES

CENTRALITY OF THE BUILDING

VISIBILITY OF THE BUILDING

SERVICES PROXIMITY



During the conducted interviews, the above features were mentioned by almost all the respondents. In fact, the most important characteristics are access to public transport and location of the building. The importance of the two requirements is imperative since a great percentage of employees in Business Services Centres are young professionals and usually commute to work by public transport, rather than by car. The preference for a central location, relies on the previous premise since normally a central building is well covered by public transport.

Regarding the real estate characteristics valued by companies in the offices, respondents indicated several points. As almost **mandatory requirements** for spaces are the following points:

- Open Space
- Technical Area
- Meeting Rooms
- Indoor Parking (few units)
- Social Space / Kitchen Space

As **complementary characteristics** that would be very valuable are:

- Living Rooms
- Canteen (for bigger offices)
- Phone Booth
- Think Tank
- Facility Services included

Open Space

Open Space in offices is increasingly a trendy characteristic and in Business Services sector appears to be a must have. In general, the jobs performed in these firms are very intensive and with a very technical component. Usually employees are responsible for different areas or countries but perform the same tasks, and for this reason the share of ideas is very valued. An open space area facilitates the interaction among employees, enhances the communication and the spirit of team work. Even more, the support and advice is more immediate and practical through this office layout.

Meeting Rooms, Break out rooms/and Quiet rooms

Despite the strong trend of totally open space offices, meeting rooms are still necessary in these types of companies. Either to receive clients, to hold team meetings and other situations that may be noisy to occur in an open space. Still concerning the noise issue, respondents also indicated that it would be valuable to have soundproof rooms and quiet rooms or break out spaces. Private spaces to make phone calls are suitable for smaller video conferences or phone calls that may require more privacy.

Facility Services

During the conversations, many companies stated that primarily were looking for offices with the facility services included, namely security and cleaning. The security is a very important issue for every business, but for Business Services it takes even greater precedent. Business Services companies deal with very confidential information (Human Resources, Accounting, CRM, etc…) and so this component is much needed worry for companies when choosing an office.

Kitchen and Canteen

A kitchen was a characteristic appointed by all the respondents. The existence of a kitchen is fundamental for companies since it increases wellbeing and satisfaction of employees. More than ever, people are very concerned about healthy habits, and with this solution, employees can bring their own meals and snacks as well as save money.

Regarding the existence of canteens for employees in office buildings, this is an investment that occurs mainly in mature organisations. During the interviews, respondents revealed that they would only consider a canteen necessary when the supply of restaurants/ supermarkets in the surrounding area of the office are limited.

Indoor Private Parking

Indoor Private Parking was also indicated a few number of times by companies, although the necessity for parking units is reduced since, most of the time, they are required only for top management positions.

TRENDS OF SHARED SERVICE CENTRES IN PORTUGAL

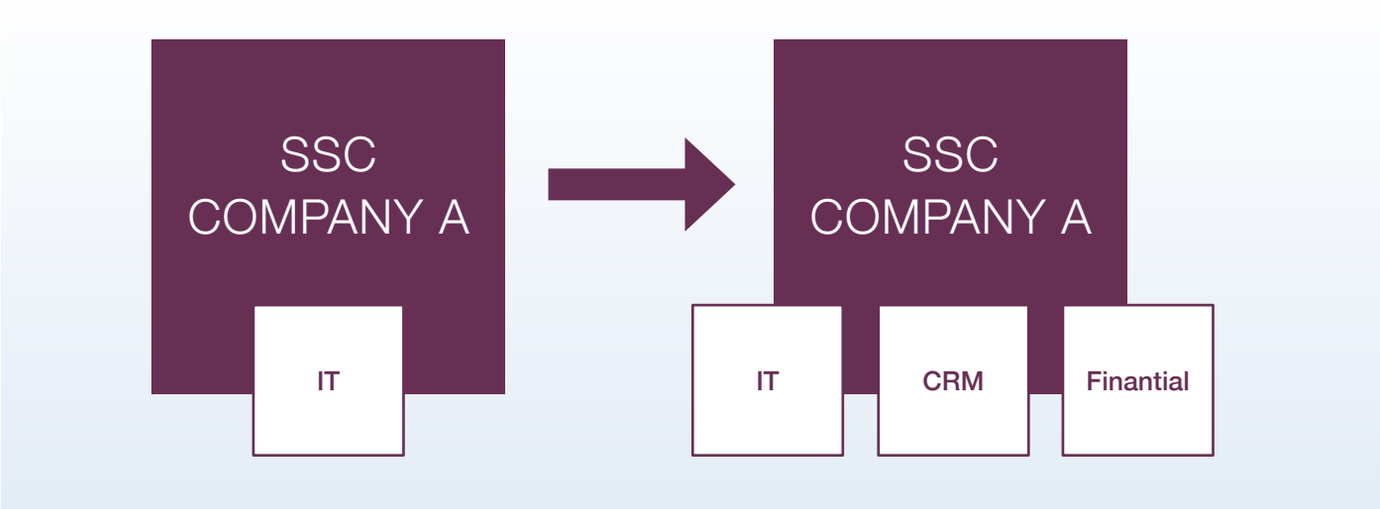
Multi-functional Shared Service Centres

Following the verified success of the implemented Shared Service Centres in Portugal, we are attending to a development and expansion of the existing centres in the country. The initial period and the evaluation of the process has been very well received in the majority of companies, and now companies are finding ways to optimise and grow their existing centres. This development is mainly due through two strategies of organisations: New Business Services and Expansion of Covered Countries.

New Business Services in the current centres are being applied in centres of companies already working in Portugal. Companies that implemented one function in the Shared Service Centre in Portugal, are now bringing other Business Service areas to the centre.

IMAGE 3

Illustration of a SSC in Portugal

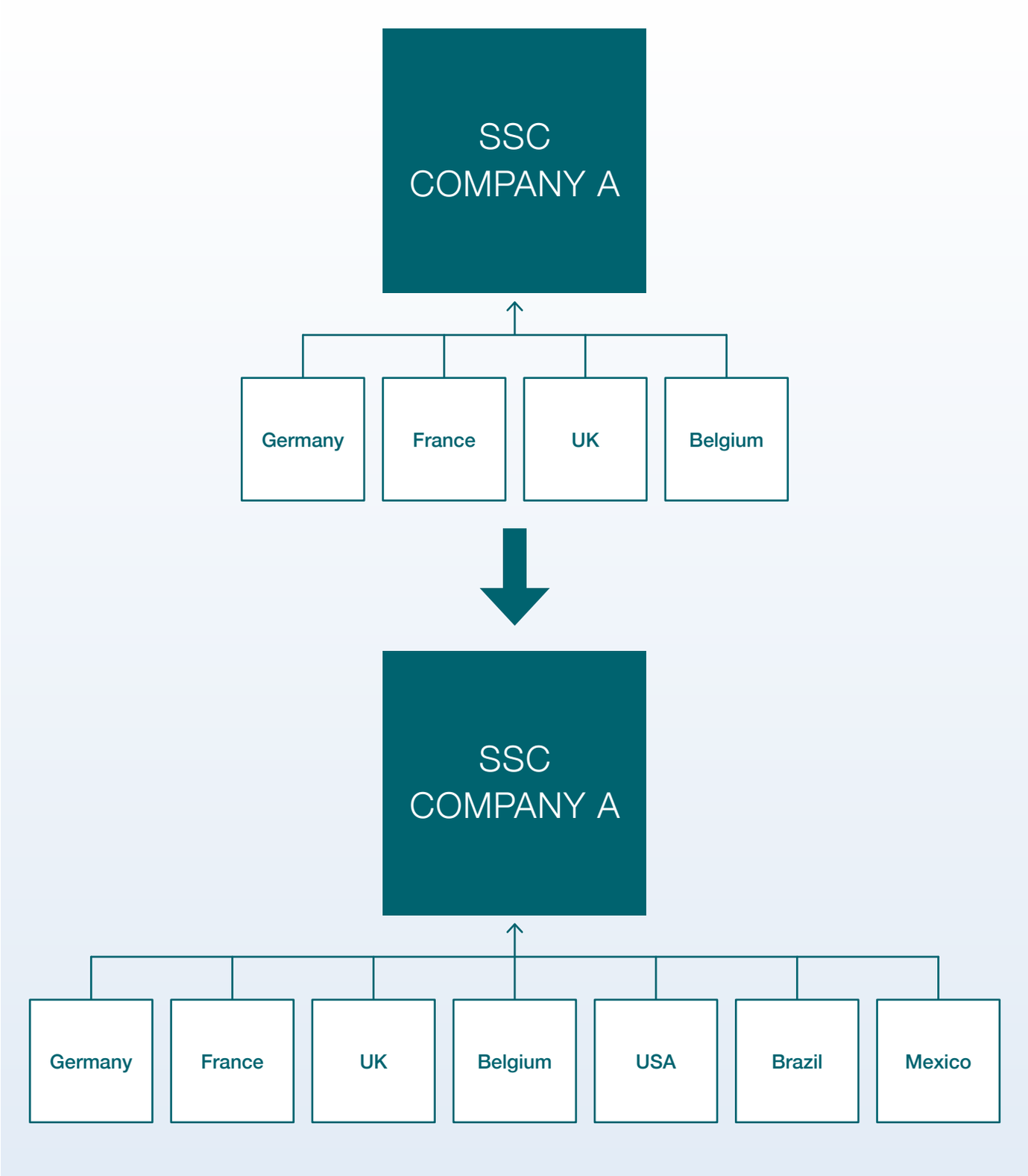


The companies' trust on Portuguese market, in the labour market and in the consistency of the economy, are factors that must be valued and recognised by Entities and other companies. Portugal is on the radar and it is important and crucial that all the stakeholders involved in this market are able to respond to this requirement. When referring to stakeholders the attention must mainly rely on the government, companies, employees and investors.

Expansion of Covered Countries in the centres has been verified in several companies that centralise more companies' services in Portugal.

IMAGE 4

Illustration of a SSC in Portugal



Type of Buildings for Shared Service Centres

Ideally, when searching for a building to implement their centre, companies tend to prefer fully fitted and refurbished office spaces ready for occupation. Lisbon and Porto are the main cities that see the most demand for office space, although newly built offices spaces are difficult to find, due to the market characteristics.

Lisbon office market is currently very limited in terms of supply (vacancy around 8.50%), with the available office spaces barely corresponding to the quality and requirements needed. The Porto office market has low levels of development compared with Lisbon and other European cities.

Depending on the city, the real estate solutions found to satisfy the demand for centres are different. It is clearly understood that the main cities of Portugal offer better conditions than secondary regions.

The majority of centres in Lisbon and Porto are located in primary office buildings and, depending on the area required, they are spread into semi or full occupancy. This last scenario is quite atypical due to the limited supply.

Regarding centres located out of Lisbon & Porto, companies take space in industrial parks, in which they can find greater areas. Another solution for companies that have been occupying space in these areas is renovating older office buildings

LISBON & PORTO

Office buildings occupancy

OUT OF LISBON & PORTO

Industrial Parks
Renovated Buildings

New Areas to Explore

Lisbon and Porto are undoubtedly the cities with more centres, traditionally, the cities that see the most demand for office space.

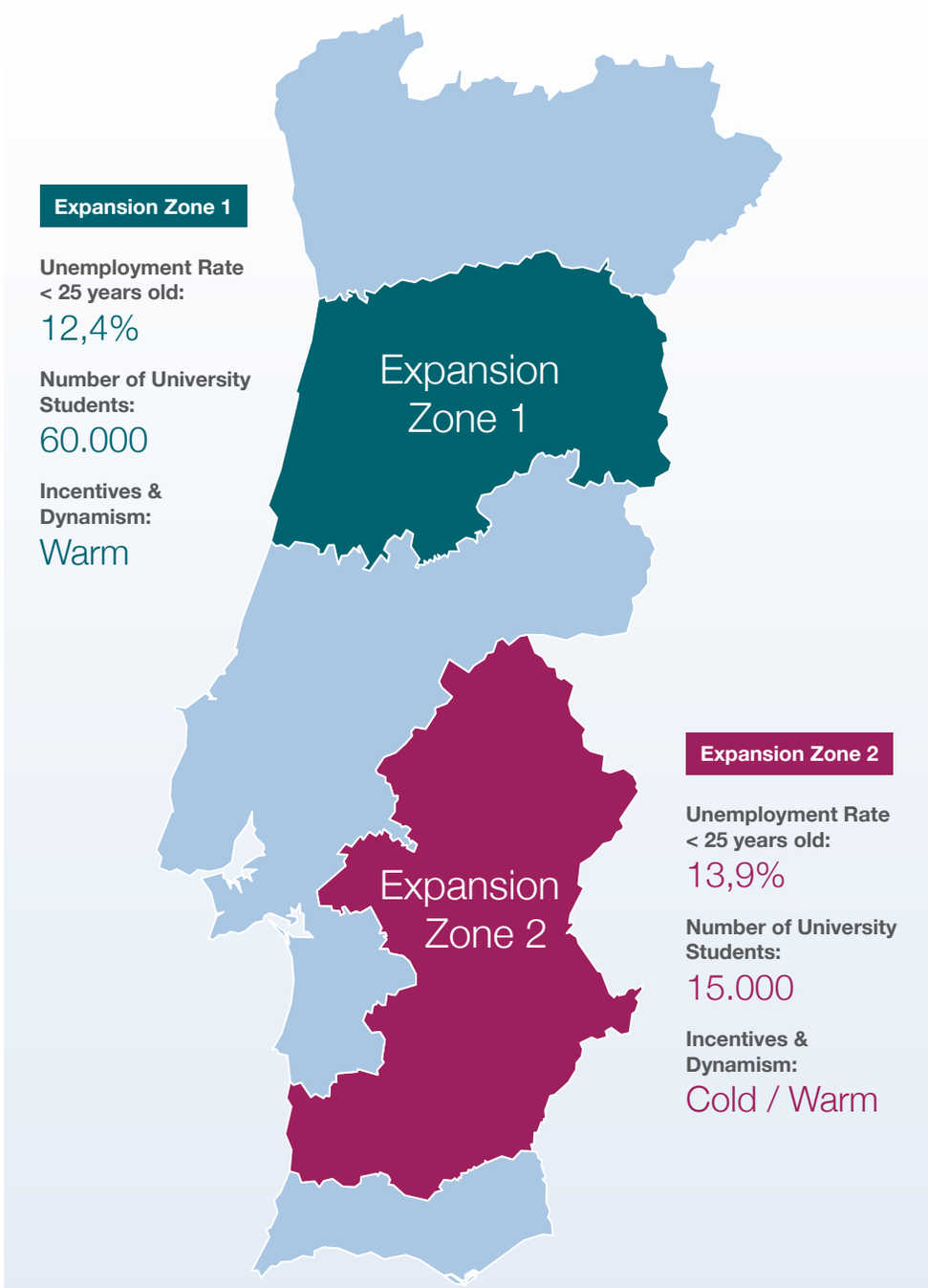
As previously mentioned, the office supply is quite limited and the solutions found in main cities of Lisbon and Porto are different from other regions of Portugal.

Although, mainly due to its location and accessibilities, office space in Porto and Lisbon has been in high demand for Shared Service Centres.

Due to the scarcity of spaces suitable for Shared Service Centres, and taking into account the characteristics of demand analysed in this study, new areas of the country were identified as possible options to satisfy the requirements of the companies.

MAP 5

Expansion Zones for Shared Service Centres



Source: Savills Aguirre Newman

Expansion Zone 1

The Expansion Zone 1 comprises **Aveiro**, **Viseu**, **Guarda** and **Coimbra** districts.

Accessibility:

This zone is well connected to both airports: Francisco Sá Carneiro (2h30 maximum) and Humberto Delgado (3hours maximum – through several airways as A1, A23, A25, A35. As concluded in this study, the quality of transports, as well as, proximity to airports are a primary characteristics for companies that are verified in the zone.

Human Resources:

The unemployment rate of youth (below 25 years old) is, on average, 12,4%. Guarda and Viseu are the districts in which the rate presents higher values, 13.7% and 13.4% respectively. In what concerns the dimension of university students, Coimbra and Aveirohave around 23.700 and 15.000 students each.

Incentives & Dynamism:

In terms of the dynamism of regions, districts in Expansion Zone 1 are starting to create their own promotion vehicles – Choose Coimbra & Viseu Investe. This reveals an increase of awareness by municipalities for the importance of investments and capture companies' attention.

Both Expansion Zones identified present features recognized in this study as characteristics demanded by companies that implemented at least one Shared Service Centre in the last years. The following step is the intention of local entities as well as global entities to support these zones with the necessary tools for their development.

Expansion Zone 2

The Expansion Zone 2 comprises **Portalegre**, **Évora** e **Beja** districts.

Accessibilities:

This zone is well connected to both airports: Humberto Delgado (2h30 maximum) and AerPorto de Faro (3h30 maximum) – through several airways as A2, A6, A23

Human Resources:

The unemployment rate of youth (below 25 years old) people is, on average, 13,9%. Évora and Portalegre are the districts in which the unemployment rates are higher , 14.5% and 14.4% respectively Évora and Beja have around 15.000 students.

Incentives & Dynamism:

These districts are a little behind in terms dynamism of regions when comparing with other zones of the country. Although, since there are already a few centres have been opened in this area, the municipalities will certainty start promote the regions in order to attract more companies.

New Office Spaces Design

The market is constantly improving concerning the architectural features and attributes of offices. Over the last few years, we have assisted to change the mind-set of companies, being currently the major concern of companies focused on wellbeing and comfort of employees.

Several studies have shown that when employees feel comfortable and happy in their workplace, their productivity increases. Considering this understanding, companies are looking for new features that can improve the office environment. As previously described, several concepts have been already implemented in companies (such as open space, living rooms, think tanks), although there are modern solutions emerging and gaining importance within the architectural view in Portugal. Sustainability certifications in buildings is a very relevant issue and provide distinct characteristic for the asset, with significant impacts in the society.

Green Certificate
Focus on Environment

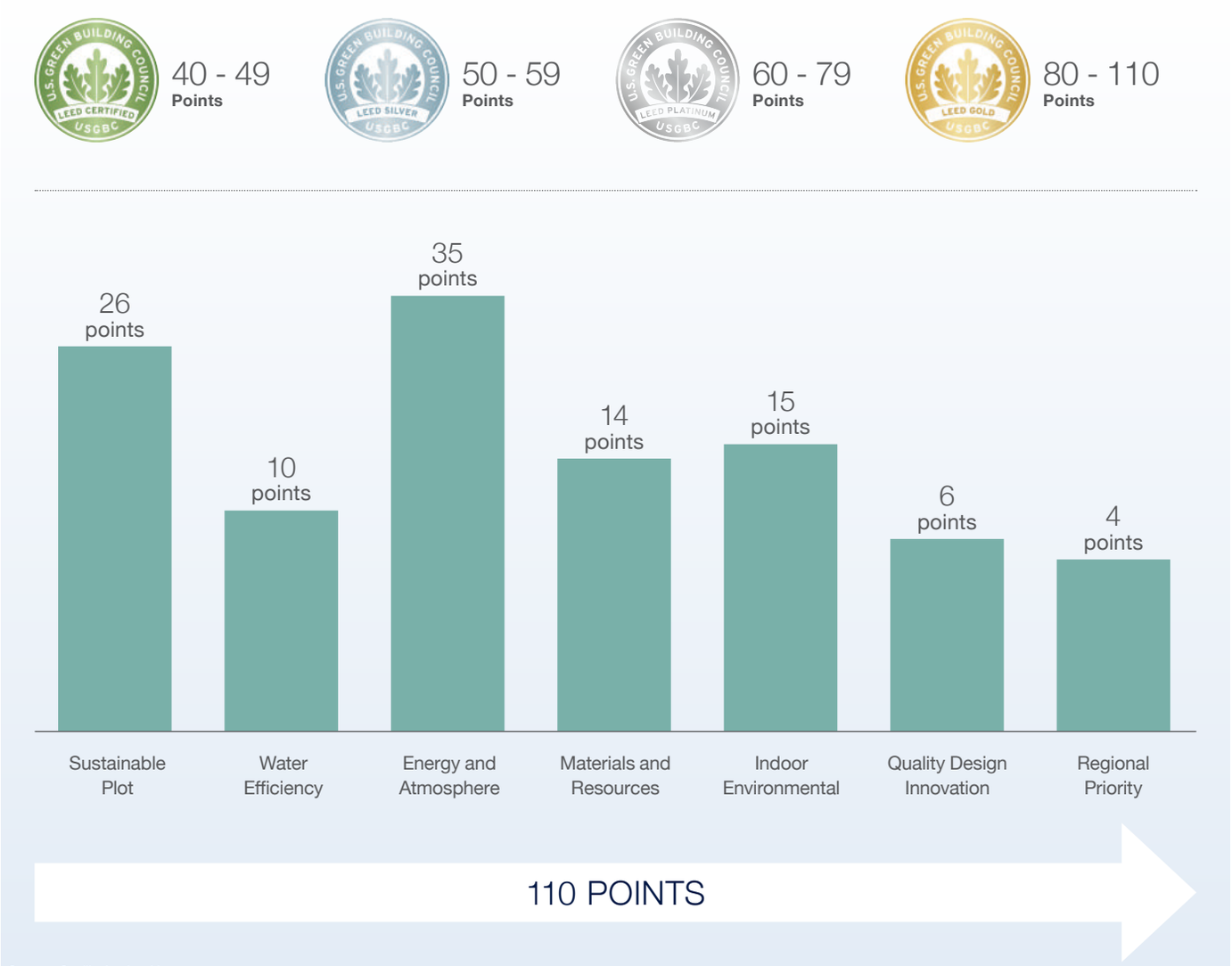
LEED

LEED, or Leadership in Energy and Environmental Design, is the most widely used green building rating system in the world. Available for virtually all building, community and home project types, LEED provides a framework to create healthy, highly efficient and cost-saving green buildings. LEED certification is a globally recognized symbol of sustainability achievement.

– In Non-profit U.S. Green Building Council

GRAPH 2

Evaluation of LEED Certifications



Source: Savills Aguirre Newman

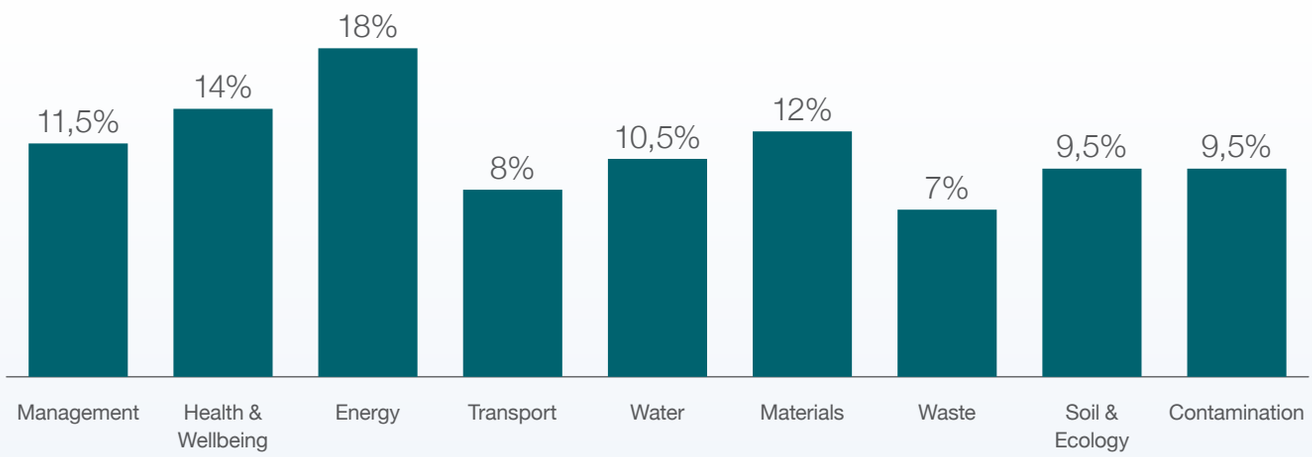
BREEAM

BREEAM is the world's leading sustainability assessment method for master planning projects, infrastructure and buildings. It recognizes and reflects the value in higher performing assets across the built environment lifecycle, from new construction to in-use and refurbishment.

– In BRE Group

GRAPH 3

Evaluation of BEEAM Certifications



New Buildings	Classification	Existent Buildings
> 30% Correct	★	> 10% Approved
> 40% Good	★ ★	> 25% Correct
> 55%Very Good	★ ★ ★	> 40% Good
> 70% Excelent	★ ★ ★ ★	> 55% Very Good
> 85% Exceptional	★ ★ ★ ★ ★	> 70% Excelent
–	★ ★ ★ ★ ★ ★	> 85% Exceptional

Source: Savills Aguirre Newman

Well Certificate
Focus on Wellbeing

WELL

The WELL Building Standard marries best practices in design and construction with evidence-based health and wellness interventions. It harnesses the built environment as a vehicle to support human health, wellbeing and comfort.

– In International Well Building Institute

IMAGE 6

Occupant Wellness Through Workplace

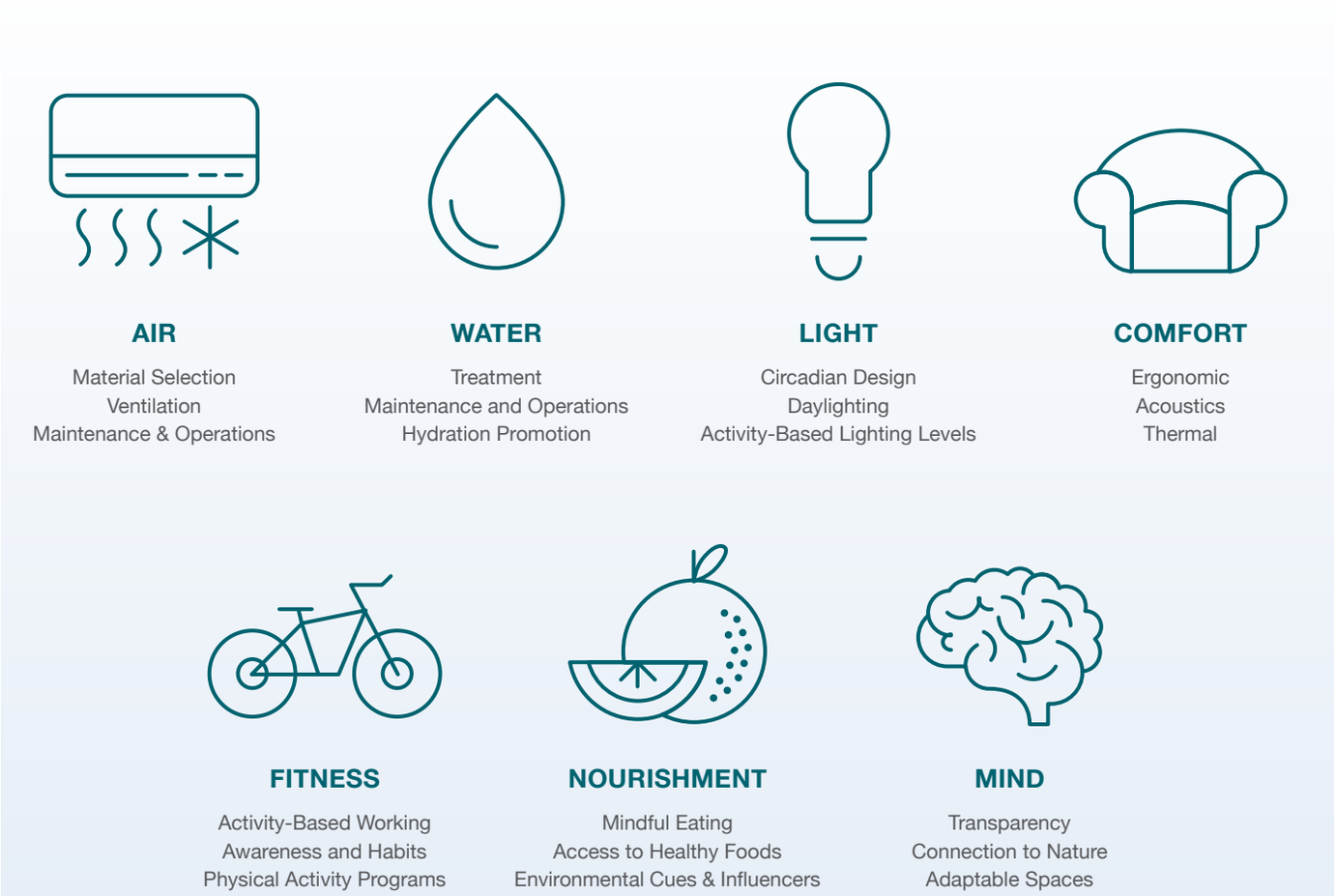


IMAGE 7

Evaluation of WELL Certifications

WELL SILVER 2017	WELL GOLD 2017	WELL PLATINUM 2017
100% of Preconditions	100% of Preconditions	100% of Preconditions
	40% + of Optimizations	80% + of Optimizations

BNI Offices powered by Savills Aguirre Newman

IMAGE 8

Advantages of Sustainability Certifications

OWNER

A SUSTAINABLE BUILDING IS A **DISTINCT ASSET**

- Higher Sale price
- Higher Rents
- Earlier Leases
- Less operational costs:
  - -25% Energy consumption;
  - -30% water consumption

TENANT

A CERTIFIED BUILDING IS A **DISTINCT BENCHMARK**

- Enhances company image: social and environmental commitment
- Reveals a Corporate Social Responsibility
- Improves the comfort and welfare of employees

SOCIETY

A CERTIFIED BUILDING BRINGS **SEVERAL BENEFITS**

- Economic returns
- Environmental impact
- Social improvements

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