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Doing Business The International Way

by Stephen Lewis

Rewards are many; challenges are overcome by choosing the right partners

Perhaps it really is a small world, after all. In recent years, a growing number of SIORs have become involved in international real estate, either by forming alliances or partnerships with other firms, through mergers and acquisitions, or by formally joining one of the growing number of international network organizations.

Most SIORs have found the experience extremely positive, not only opening up untold business opportunities, but also enabling SIORs to build lasting relationships around the globe. Real estate standards and practices vary widely from nation to nation, but the basics of being a good real estate broker/advisor hold true no matter where you are.

Fundamental Differences

Fundamental differences exist in lease structures and legislative framework, and large variations occur throughout Europe, notes **Robert B. Cleary, Jr., SIOR**, vice president and ONCOR Manager, for the Boston, Massachusetts-based Meredith & Grew/ONCOR International. "It makes for surprises if one isn't properly prepared," he notes. "Not understanding local practices can make for a lesson you don't want to learn."

Lack of standardization extends to commissions, Cleary explains. "In the United Kingdom, the tenant is responsible for fee payment for its advisors," he notes. "A large majority of transactions in Europe have different advisors on each side of the transaction."

"The fee structure is not always to our liking," adds **Peter O. Hanson, SIOR**, chairman of the board of NAI James E. Hanson, Hackensack, New Jersey "Unlike the United States, in England the buyer and seller each pay their own representative broker or advisor—in most cases at a lower rate than we're used to. You just have to adopt to their

customs and expectations."

"The major difference between any real estate transaction in the United States and overseas is obviously language, and that even applies to the U.K. and the U.S.," says **Christopher J. Monk, BSC, FRICS, SIOR**, of King Sturge, in Birmingham, England. "Each country will have different terminology, and if you are dealing in international real estate you have to understand the terminology with respect to each of the countries in which you are dealing." He adds that it's difficult to generalize about "international" real estate. "For example, in the U.K. each side of the transaction will be responsible for paying its own costs; in France the tenant pays."

Despite the obvious differences, however, "I would say first that there are more similarities than differences," asserts **Mark B. Stiles, SIOR, CCIM**, an office specialist with Stiles & Riaboko-bylo, New York, New York. Stiles, who conducts most of his business in Russia, says that all investors, clients, and customers appreciate a high level of service, client care, and attention to detail "regardless of where they originate."

Of course, there are special challenges presented by Russian real estate. "For example, in Moscow the owner of a building must have an act of acceptance for completion of the building before he is the legal owner," Stiles points out. "The tenant can register their lease only after this is completed. If their lease is not registered, the cost of that lease is not a legally deductible expense for the tenant. This can be an issue because often the ownership paperwork is completed months after the tenant has moved in the premises."

Whatever differences there may be, "You don't know until you get there," says **Douglas H. May, SIOR**, of Colliers International in Toronto, Ontario, Canada. "Obvious differences are language, currencies, measurement units, standard terms, how commissions are paid and the level of protection afforded the agents, and tenant expectations in terms of finish. Another issue that's always interesting is the difference

in tax structures; there can be hidden costs if you don't fully understand the issues."

Often 'Flying Blind'

Because of the obvious market differences, notes May, it's essential that you have a knowledgeable local partner. "Quite often when you step into a market you're flying blind, and you need a trusted person working with you on the other end of the line.

"I've always believed the only way to conduct international real estate properly is to develop some strong local representation. It's critical from a market knowledge and business practices standpoint," he continues. "You can get this through a network or through personal relationships. Your networks are great, but ultimately you need a relationship with a person who will assist you in executing your mandate for the user."

"First, I call on the people who work with me in my office," says Stiles. "We create a project team which may include personnel from our departments of research, valuation, project management, property management, marketing, corporate communications, agency or corporate services. Second, I call on other service providers who will become part of our project team to include tax advisors, legal advisors, banks, architectural firms, fit-out or construction contractors, and possibly even government or quasi-government personnel."

"When carrying out our transactions, we could be involved with lawyers, accountants, environmentalists in the cases of development, engineers, building estimators, and contractors," says Monk. "It depends very much on the nature of the transaction."

"In my case I deal through an entity called NAI (formerly New America Network)," says Hanson. "With that arrangement and with similar companies who belong to the same affiliation, we have a counterpart in other cities around the world."

What Should You Expect?

Even though you may be the "foreigner" in a transaction, experts say you have the right to demand a high level of professionalism from your international counterparts.

"We expect to work with brokers in our own market and in other countries the same way we did in Atlanta from a cooperation standpoint," says Stiles. "Cooperation is key to moving deals forward and making the market efficient."

"As far as our expectations of dealing with brokers in another country and what we want from them, I think what anyone would want is that the broker who we refer the matter to gives the client the very same service that we give. You must take into account, of course, the different customs, etc.," says Monk. "I believe that any SIOR has to understand the needs and the methods of their clients and partners, and importantly, they must use the local knowledge. It is not possible to give the client good service on a property in another country without having local knowledge, and you can't do that from thousands of miles away."

'Broker' is a term that we use broadly, and overseas they really do not exist as we define them," Cleary advises. "European real estate professionals are true general practitioners and motivated in various ways, good sometimes and

not so good sometimes. Be involved and stay close to your deals and the best practitioners will be very evident; if you let it go without remaining close, a good client may be lost."

Belonging to an organization like SIOR can help ensure the professionalism of your international partner, notes May. "Organizations like SIOR give you another level of confidence about the quality of individual you are dealing with—the ethics and the business practices they employ," he notes. "Another such organization is the Royal Institute of Chartered Surveyors in England. I like to know that the individual I deal with is not only a top agent in that market, but has also dealt with international tenants; that's *critical*."

Benefits Outweigh the Risks

As with any uncharted territory, international real estate can hold risks for the newcomer. However, say those who should know, the bottom line is overwhelmingly positive.

"The real benefit is that it gives you a network of hopefully like-minded associates that you can go to," says May. "As your experience evolves, you are taken more and more seriously by those seeking partnerships or relationships, and keep in mind the real purpose is to facilitate the development of business. With time, you may need to develop a stronger sense of whom to deal with within specific organizations."

"The benefits are many," says Cleary, "the foremost are perhaps stronger relationships and trust with clients and the additional fee opportunities with existing clients. We have to be able to assist our relationships where and when needed; we have to go where our clients go, or someone else will reap the benefits of that relationship."

"The debate about the benefits of becoming involved in international real estate are many, but I would say the most overriding view is that we are now in the global economy, our clients are very often global and are looking for global real estate solutions," says Monk. There is still a need for what we would call niche practices which just deal with their local economy, but if your practice is large or you want to expand and be involved with the bigger international and national clients, then international real estate is going to become very important."

Stiles agrees. "Everyone has heard the all-too-familiar 'globalization of markets' clichés, but the fact is that top companies are penetrating new markets worldwide and they need professional real estate advice to cope. Recently, I attended a breakfast in Moscow sponsored by the American Chamber of Commerce in Russia with the new U.S. Secretary of Commerce Donald L. Evans. A primary focus of his agenda is to establish stronger trade relations and promote U.S. business in Russia. His first trade delegation will be in Russia before the end of this year. I think the business opportunities are phenomenal as companies who demand their advisors to have a broader perspective of how their business works will use advisors that do."

Stiles says he doesn't like to think in terms of 'roadblocks' to success in international real estate. "I like to look for solutions," he explains. "When I came to Russia I didn't speak a word of Russian. I know you can still do deals even though you don't speak the language. Of course, you can

always get translators or build relationships with people who are bilingual. And most international business is conducted in English anyway.”

“I think ‘adjustment’ is a better word,” says Hanson. “You just have to go with the flow and understand what the customs are in the country in which you are dealing. They are not going to conform to your practices; you have to conform to theirs.”

The major challenges, says Cleary, are communications, people, and cost. “Resistance to central (headquarters) controlled real estate initiatives are very common in the United States, and it is a very big hurdle in many countries in Europe,” he notes. “Local people in prestigious positions within the local communities don’t want to lose their ability to make decisions and be *the* decision-maker in the eyes of the local community and especially to their employees.”

All large corporations are aware of the potentially huge savings that can be achieved through broader global initiatives, Cleary adds, “But time and upfront costs—for example, database assembly of leaseholds and lease administration—are sometimes painful for them. It can be easy to get caught doing the difficult research and information gathering to provide the essentials and hope for the relationship to foster future transaction work.”

Making the International Connection

So you’ve decided to become involved in international real estate . . . now what? How do you find your international partner?

The two major avenues are either partnering with an international organization, or joining a network, and both can prove rewarding, say observers. “I think both have advantages,” says Stiles. “It really boils down to your business philosophy and your level of activity in international and even domestic markets, for that matter.”

There are a large number of opportunities for international partnerships, as networks and associations seem to be springing up with growing frequency. So who are the major players? “ONCOR International and CB Richard Ellis were ranked the top two brokerages globally for transaction volume in the year 2000 by *Commercial Property News*,” notes Cleary. “Colliers, Cushman & Wakefield, and Grubb & Ellis rounded out the top five.”

“I think we have to say some of the most well respected international real estate firms and alliances have got to include Insignia, Jones Lang LaSalle, CB Richard Ellis, H & B, Grubb & Ellis on the network side. Our company, King Sturge & CorFac, is becoming quite a force internationally although on a basis that’s not always obvious to the outside world,” says Monk.

“There are many international firms today and the consolidation of the business internationally either through acquisition, merger, or association has been quite active and fast over the last several years,” adds Stiles. “In my market the main international organizations, in addition to Cushman & Wakefield, are Jones Lang LaSalle, CB Richard Ellis, Colliers, DTZ, and GVA.”

The Best Way to Go

So there you have the players; but which route is more advantageous? Joining a network? Partnering with an existing firm? Expansion through merger or acquisition?

“Preference of network over partnership or vice-versa is really a tough call,” says Cleary. “Consistency in advice, service, and delivery is crucial because our clients work with us due to past experience and formidable results. They get used to a certain level of service and level of expectation. We must provide it wherever they ask us to provide service. It’s very difficult, but one must perform consistently even when it is not in their hands every step of the way.”

Most who have already made their choice are pleased with the direction they have chosen. “My experience has been with Colliers International and it has been a great organization for conducting international business,” says May. “Several others are equally good—ONCOR, CorFac, CB Richard Ellis, Jones Lang LaSalle, The Cresa Organization. What’s interesting is that there has been a growing development of these types of organizations over the last several years, driven by the user more than anything else.”

“For us, a network is the best solution; it’s the solution we have chosen,” says Monk. “Because it is a network, for it to work there must be a good relationship with your colleagues in other countries and you must work for each other. However, for others, like the large conglomerates, they work internally and I think the decision really is whatever fits your style.”

“We’ve been in what was New America Network for more than 20 years, and chose it because we wanted a degree of independence, but we also wanted to be able offer to clients and customers a service that was geographically broader than our local market,” Hanson explains. “We have done many deals in London, and I just had a call indicating I need to fly to Mexico City next week because we may get an offer on a listing because we’re an affiliate.”

Stiles has actually experienced both options. “They both are good ways to go,” he says. “I have a partner who is Russian and we established our business to provide professional real estate services in Russia in 1994. We also formed an association with Healey & Baker as part of Cushman & Wakefield, so now we handle all of Cushman & Wakefield’s international clients when they have business in Russia.”

Cleary confirms that you don’t necessarily have to make a choice. “You can work through partnerships, trade organizations, or international networks. Each are fine to prepare one to do business abroad,” says Cleary. “However, they are also very complementary in nature.

For example, ONCOR International provides the means and platform for Meredith & Grew to transact business globally. SIOR has individual practitioners and firms in markets that many multi-national real estate firms cannot. A little mixture from both organizations can make for very complete multi-national service capability.”

International conferences are also beneficial, says Stiles. “The MIPIM convention in Cannes, France, is an excellent way to ‘shrink the world’ for a week and get a good feel for what is happening on an international basis and meet people with whom you can form relationships,” he notes. “SIOR has been involved for many years now, at least for the last seven years I have attended. The SIORs that have been coming over the years continue to come back. I highly recommend using this event via SIOR if you have any interest in international real estate. Besides, it is a lot of fun!”

... But Is it Working?

Once you've chosen your direction, how will you know if you've made the right decision?

"That question, I believe, can only be answered by actually working together with your partner or association after clearly understanding your objectives, criteria, and doing your due diligence to determine if it is right for your individual and company needs," says Stiles.

"I think it really is all about whether you have a good relationship," adds Monk. "Do you talk with your partners elsewhere in the world? And lastly, do you make money?"

Hanson agrees. "You just have to live with it, see that it works for your partner and that it works for you. A good fit means a camaraderie and a trust that develops—that's probably most important. And, of course, a good fit means can we make money together?"

The bottom line is that international real estate can be an extreme lucrative source of new business—if you pay close attention to the dos and don'ts outlined above by the experts. "The key lesson for anyone working overseas is to ensure that you, your client, and/or your partners know and understand the fundamental characteristics of the specified targeted market," Cleary summarizes.

If you do, says Stiles, the rewards can be more than just financial. "I personally have become much more aware of how the world works and how businesses adapt to compete in markets outside of their home countries," he observes. "I have learned a lot about myself and am much more open to new ideas and methods of business that we must implement to stay ahead of our competition, and I have enjoyed making close friends from all over the world." ❖

Stephen E. Lewis is the president of Wordman, Inc., a marketing/public relations firm in Atlanta, Georgia. He served as editor of the National Real Estate Investor for eight years. He was also the real estate editor of Business Atlanta and the editorial director of the Real Estate Group of publications at Communications Channels, Inc., which includes Southeast Real Estate News, Southwest Real Estate News, and Shopping Center World. His firm represents developers and contractors in the Atlanta area, and he continues to write freelance articles about the real estate industry.