

International real estate

Baltimore is very much a part of the global economy that Thomas Friedman describes in “The World is Flat” — a disaggregated, distributed economy that uses digital technology to link capital, creativity, manufacturing or engineering prowess, and new market opportunities. Not only are Baltimore’s traditional consumer product companies such as Black & Decker and McCormick Spice a part of this; numerous other area service firms, manufacturers and universities are expanding their presence in Europe, Latin America and Asia.



By Jeff Samet

While many companies are looking to fuel their business growth internationally, both startup firms and Fortune 500s alike face the same challenge — how to establish a physical presence in foreign countries in both a timely, yet economical manner. Some global real estate service firms have developed distinctive know-how to help such companies locate, lease, buy, appraise or sell facilities throughout the world. This article summarizes some of the lessons in successfully executing corporate real estate assignments, given the market, cultural, legal and risk-management issues attendant to starting or expanding operations overseas.



By Greg Trezise

Global coverage, local understanding

Businesses considering an operation overseas should choose a real estate provider with a global presence and experienced account managers inside and outside of the U.S. Each country has its own sometimes complicated set of dynamics, with local market forces dictating the pace and pattern of building supply, demand, lease rates and sale prices.

A U.S.-based account manager is an essential part of the process, as he or she works to balance corporate expectations and local market practices in order to manage a disciplined process that is accepted by all parties. His or her English-speaking counterpart in the other country must be conversant with the local market, but also able to help manage the expectations of U.S. clients, who are sometimes impatient with time differences, work product turnaround, unfamiliar holidays, long lunches and longer vacations.

Effective account managers have cultivated personal relationships with their global counterparts by attending overseas conferences and successfully completing assignments with one another. Personal relationships help overcome cultural differences, assure responsive service for even the smallest of assignments and minimize potential conflicts of interest, thereby ensuring the same level of service on both domestic and international assignments.

Diverse market practices

While many U.S. customers have established best practices for

their domestic portfolios from which they rarely deviate, lease practices vary by country — and knowledgeable international real estate providers can help reconcile these differences. Examples of such differences include:

- **Lease Term:** While U.S. tenants typically lease space for three to five years, office leases in London are 10-15 years, three in China, three to five in India, and two in Japan. A shorter lease term offers tenants more flexibility, but this benefit has to be weighed against a shorter amortization term for tenant-funded improvements. The opportunity for options to renew must be considered in connection with lease term, as they are less customary in some markets than they are in the U.S.
- **Tenant Improvements:** Most American tenants are accustomed to receiving “turnkey” office space. A landlord in London, however, will generally provide carpeted space with suspended ceilings, lighting and wiring, complete with mechanical and electrical systems. In China, landlords generally provide standard ceiling fixtures, a sprinkler system, lighting and window blinds. Tenants fund everything else. Tenants essentially lease shell space in India, self-funding most of the improvements in the demised space. This is also the case in Japan, where tenants must restore the premises to original delivery condition at the end of the lease. At the end of most American leases, tenants are free to vacate the premises virtually “as-is”; however, this is not always the case in foreign countries. “Dilapidations” — restoring space to its original condition — are common in many countries, can be expensive and should be budgeted as part of overall occupancy expense.
- **Rent:** Rent is usually charged per square foot or square meter per month. Office rents are often quoted on a net basis, with the tenant additionally responsible for taxes, operating expenses, parking and management fees. Rent is sometimes adjusted to an index. Value-added taxes (VAT) are assessed against rent in many countries in addition to real property taxes.
- **Other:** Beyond pure lease issues, clients operating overseas need to be aware of other local laws and customs. Space measurement norms vary, as do the laws governing tenant rights, frequency of lease payments (quarterly in Ireland, England and France), and amounts of security deposit. There are other occupancy-related costs that must be budgeted for. For instance, it is common for Japanese companies to provide transit subsidies to employees. Relocating to a new location may increase or decrease this cost and affect the comparative economics of different locations. Similarly, in France, a company may have to pay relocation subsidies to employees if the company moves beyond a specified radius from a current location.

Companies should rely on their international real estate provider to identify these differences and assist them with applying such market practices to their business needs, budgets and strategic objectives.

Keys to success

The global real estate services provider must help align the interests of the in-country business unit with the real estate guidelines and policies of the parent company. The business unit user, corporate real estate project manager, third-party service provider, HR, finance, IT and construction departments must operate in sync with processes that define roles, responsibilities, timelines, budgets and decision-making authority. It is a rare project where there aren't tugs between what a country business unit wants and what headquarters thinks is supportable. In these cases, in particular, communication and coordination protocols should be agreed to at the outset. Web-based project management tools permit ready access to property surveys, landlord proposals, project analysis, e-mails, and lease or purchase documents.

Even with the best of management practices, the friction of time, distance, culture and internal approval processes tend to stretch project schedules. This can become a problem in places like the booming markets in Asia, where vacancy rates are close to zero and properties lease to the first company able to sign a lease.

Global real estate partners are more important than ever in successful international expansion and meeting expectations in this new, flatter world.

Jeff Samet is a member of Colliers Pinkard's Corporate Solutions team, specializing in international representation. Greg Trezise is a transaction manager for the firm's Corporate Solutions team. They can be reached at 410-752-4285.

