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Business Beyond Borders

Three CCIMs provide unique perspectives on working in global markets.
By Jennifer Norbut

CIRE: What are the top two or three fundamental differences between commercial real estate transactions conducted in the United States and those conducted in China, Mexico, and the United Kingdom?

Wong: In China, all land is owned by the government and investors may obtain 50-year leases for commercial property and 75-year leases for residential. About 10 years ago, government-owned factories began selling housing at very good terms and prices to factory employees, so private ownership came into being. With government financing, a proliferation of multilevel shopping mall developments also occurred.

Private property rights are not clearly defined by China's judicial system and there are conflicting statements on how investors can export their capital from the country. Many Beijing projects are half-completed because the government has ceased liberal financing terms to developers and is forcing them to infuse substantial equity.

Gangel: The three most fundamental differences between the two countries are reflected in the legal systems, cross-culture understanding, and real estate ownership. Mexico is a civil law country whereas the United States is a common law system. Mexican business is built on long-term relationships and professionals work diligently to develop them prior to engaging in real estate activities. Foreign ownership is restricted and all properties that change hands go through public notaries, who have a great deal of power and the right to handle real estate transactions.

Additionally, Mexico does not have a centralized listing data system; most individuals and companies develop and maintain their own databases of property inventory, comparables, and other statistics.

Fox: U.K. brokers are employed on a salary plus bonus basis and therefore spend more time on nonexclusive business. Also, both buyers and sellers generally are represented by brokers separately and their clients pay fees on both sides. Fees are usually between .5 percent and 1.5 percent of the sales price, depending on the transaction's size.

Whether acting for the buyer or seller, the U.K. agent (broker) is expected to produce a report on value. Most of these reports are carried out by the agent's in-house chartered surveyor. These valuation reports are highly regulated by the Royal Institution of Chartered Surveyors. In the case of the purchaser's report, the broker's company can be held liable.

CIRE: What cultural information can help U.S. professionals facilitate commercial real estate transactions in other countries?

Wong: To most Asians, the ritual of passing a business card is important and the absence of a presentation of your card is always rude. In China, it is crucial to build relationships before you attempt business transactions. Americans are results-oriented, but the Chinese are patient and will want to know more about the person before they conduct business.

Gangel: In Mexico, most professionals prefer to develop and build trust and confidence in one another before conducting business. Spending social time and sharing meals is important for nurturing the relationship. The more social time spent with an unknown prospective partner prior to engaging into a commercial transaction, the more comfortable it becomes to deal with that international colleague over time. A high level of mutual trust and respect between the parties is essential to reaching and ensuring the success of any future venture.

Fox: U.K. commercial brokers are well educated and expect you to know your game. The CCIM designation is starting to be recognized and is gaining respect, but right now the RICS designation is the most acknowledged hallmark.

The most important thing to remember when working in the United Kingdom is to display a sense of humor. I would suggest reading Notes from a Small Island by Bill Bryson. The author presents a hilarious social commentary that conveys the true



Jennifer Norbut is editor of *Commercial Investment Real Estate*.

CCIMs Share Their Knowledge



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Wong has specialized in real estate counseling for 33 years and currently has clients in China, Taiwan, the U.S. mainland, and Hawaii. He earned the CCIM designation in 1973 and is a lifetime institute member. His past institute involvement includes chairing designation promotion, marketing, international coordinating, and bylaws committees and serving as the Hawaii chapter president. Currently he is a director of the institute's Education Foundation. In 2004, Wong met with the members of the Beijing and Shanghai chapters to network and create new investment opportunities. Contact him at (808) 591-2155 or albert@palacerealty.com.



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Gangel specializes in brokerage, site selection, sales, leasing, management, and consulting for U.S. and international clients. Originally from Mexico, Gangel also has worked in real estate capacities for Trans Texas Interests, a subsidiary of Bexar Savings, and Coldwell Banker Commercial. Currently, she serves on the institute's board of directors and is a regional vice president and a member of faculty and international coordinating committees. She also is a past president of the San Antonio / South Texas CCIM chapter and graduated from the institute's Jay W. Levine Leadership Academy in 2003. Contact her at (210) 650-0380 or sgangel@sigainternational.com.

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glory of the United Kingdom's people.

CIRE: What types of cross-border transactions are the most active right now and what market factors are driving those deals? Also, what property types do these transactions primarily focus on?

Wong: About 20 years ago China came to Hawaii seeking architects and planners to design the infrastructure for their vacant land. Today, it has constructed many five-star hotels in the major cities and has developed a growing tourist trade. To maintain stability the government created private ownership of homes. It also realized that private financing and management is important so it became a liberal lender. Because of the failure of many developers, the government has required more equity or down payment and has welcomed capital in all real estate areas. Perhaps the greatest challenge is marketing their properties to the growing middle class by making commercial properties more affordable.

Gangel: In 1992 the North American Free Trade Agreement opened many investment opportunities. Because of the increased migration of foreign companies to Mexico, the demand for manufacturing and distribution centers has increased.

I also see high investor demand for resort and vacation properties. Americans continue to find that Mexico is a great market for the hospitality industry and vacation homes in resort areas of this country have always been popular among Americans.

Other investment opportunities include retail centers and mixed-use developments. Currently, Mexican law allows foreign investors to own real estate in restricted zones. As the global economy maintains a healthy status, U.S. real estate professionals will benefit from those laws.

Fox: Business relationships between the United Kingdom and the United States involve more than \$270 billion in two-way investment and some \$74 billion annually in two-way trade.

The United Kingdom is the largest overseas investor in the United States and receives more than 40 percent of U.S. investment in Europe. U.S. companies employ about 1 million people in the United Kingdom, and U.K. companies employ about the same number of people in the United States.

The two countries provide excellent bases for onward business development into Europe and the Americas and their investors basically mirror each other. They are typically institutional or high-net-worth private investors and their primary activities are sales, investment, and new developments involving office, retail, and hospitality properties in first-tier cities. The current weak dollar and the United Kingdom's 4 percent market capitalization rates are making U.S. properties very attractive.

CIRE: What notable U.S. companies currently are pursuing real estate opportunities in these countries?

Wong: Almost all large, multinational U.S. companies have a presence in China. In retail, McDonald's, Kentucky Fried Chicken, Tony Roma, Starbucks, and other restaurant chains are very visible.

Gangel: Many U.S. and Canadian companies have begun operations in Mexico since NAFTA was signed. Currently, commercial real estate companies that have joined forces with Mexican companies include Colliers International, Cushman Wakefield, Coldwell Banker, Re/Max International, and Century 21, among others. U.S. title companies began offering title insurance in Mexico several years ago. Banks along the U.S. border also have lent money for real estate development and investment in Mexico.

As for the types of companies that have entered the Mexican market, retail is rapidly growing, including wholesale clubs such as HEB, Sam's Wholesale, and Wal-Mart. Restaurants include McDonald's, Sonic, Wendy's, Whataburger, Applebee's, Chili's, and Denny's.

Fox: Commercial real estate companies include Tishman Speyer in office investment and development, O'Connor Capital in office and logistics investments, and Hines in central business district office developments. The Blackstone Group's large portfolios leverage on companies where real estate is occupied but is not the main function and the hidden real estate in public companies. AEW (IXIS/Curzon) is involved with portfolios and large transactions. W.P. Carey is working with sale-leasebacks and, depending on the strength of the covenant, buying unusual and difficult properties. J.P. Morgan is leveraging capital on very large portfolios. CVC/Texas Pacific is using venture capital to buy companies and sell the real estate.

CIRE: What advice can you offer to commercial real estate professionals who want to initiate cross-border business?

Wong: The CCIM designation is very important and respected in Beijing and Shanghai. Currently several hundred designees are in these two cities. Their skills and specialties are as diverse as U.S. CCIMs'. Our analysis processes and

International Initiatives

The CCIM Institute continues to expand its activities in China, Mexico, and the United Kingdom. Here's a snapshot of recent accomplishments in these areas.

China

- Currently, the institute is administering courses through the University of International Business and Economics in Beijing.

- The institute provides more than 40 courses in five Chinese cities.

- 150 members in the Shanghai and Beijing CCIM chapters have joined together to host an international real estate forum.

- In 2004 the institute hosted a trade mission to China that included 15 designees from the United States and Canada.

Mexico

- Since its inception in 2001, the Mexico CCIM chapter has grown to 20 members.

- In 2004 the institute hosted a trade mission to Mexico that involved 36 U.S. designees and 40 Mexican commercial real estate professionals.

- The San Antonio CCIM chapter conducts cross-border networking activities with Mexican commercial real estate professionals.

United Kingdom

- The institute offers designation courses in London.

- This year the institute plans to expand its U.K. course offerings.

Worldwide Facts

- The institute has more than 625 members representing 34 countries outside of the United States.

- South Korea is the institute's fastest-growing international market.

- During the past three years approximately 20 percent of new CCIM designees are based outside of the United States.

For more information about the institute's international efforts, log on to www.ccim.com/about/international.html.

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involvement in China have already created a common language.

Gangel: Finding an experienced and trustworthy partner in Mexico and establishing a solid relationship is the key to success. A local partner with the knowledge, contacts, market data, experience, and integrity is not easy to find. However, many individuals and companies in Mexico have the qualities required to make a partnership with a U.S. company succeed.

Regarding license requirements to sell real estate in Mexico, there are none. Any foreign or local person desiring to broker deals for others can do so without having to hold a real estate license. I suggest becoming a member of Mexican Association of Real Estate Professionals (AMPI) to get acquainted and associated with a trustworthy organization and developing strong relationships with other experienced professionals that know how to do real estate deals the right way.

Fox: My first advice is to work with real estate companies that work internationally like Colliers and King Sturge International Property Consultants.

My second suggestion is to purchase a financial analysis tool that "travels well" in Europe. Argus software is the best choice because it is designed to work in both the United States and the United Kingdom. We are in the numbers game and having the right tool to do the job can make all the difference.

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