

# ADVISORY, MANAGEMENT, AND FINANCIAL SERVICES AVAILABLE ON AN INTERNATIONAL SCALE

*A suggested list of resources aids the international real estate investor in the decision-making process.*

by **Mary Alice Hines**

To invest in international real estate often requires an investment in specialists to advise and manage for growth and stability. Such services are available from numerous sources—international accounting firms, property management companies, financial institutions, and real estate consulting and advisory firms, portfolio managers, and law firms. The description that follows presents an overview of the available functions and services.

## **Accounting Firms**

Many accounting firms have offices worldwide to assist the international real estate investor or representative. Local offices often have brochures available on subjects such as foreign exchange rates, major stock exchanges and guides on taxation to provide advice on tax strategy, feasibility studies and financial services. Some firms have developed computer models to analyze company data and outline the lowest tax payment required within a particular country. Financial advice can include gathering information on dividends, interest, capital repatriation regulations, and alternative strategies to reduce tax payment and increase profits.

## **Property Management Companies**

International real estate investors often must acquire property management services to handle the economic administration of the site. An investor requires frequent reporting on rent collection, operating costs, management problems, suggestions for upgrading commensurate with rent increases, knowledge of the area and building vacancy rates, and the projected cash flow from the property. The management firm functions to



preserve the capital. Appropriate maintenance and surveillance of the premises by the on-site team can forestall physical deterioration. Effective management also may lengthen the economic life of property by noting new market trends and suggesting improvements. Normally investing in property improvements produces increased rental rates and fewer vacancies to increase net revenues, or the estimated economic life of the investment may be shortened.

Since the property manager also is able to increase the productivity of the space, he/she is constantly looking for cost reduction techniques and methods to increase rent and lengthen the property's economic life. He/she keeps abreast of tax laws and looks for ways to reduce the tax burden. While the owner cannot change applicable tax rates, the assessed value can be re-examined for fairness and equity. The property needs to consistently increase its cash flow to keep up with inflation which impacts on rent and operating costs. It is the manager's responsibility to keep a profitable balance between the two.

The property management company normally plans marketing strategy, sets the rent levels, plans the reasonable sale prices, advertises the availability of vacant

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units, and shows the available space. The company will accept lease applications or purchase contracts and negotiate the final terms.

### **Financial Service Firms**

Commercial and merchant banks, investment banking houses, and mortgage companies can provide many worthwhile financial services to the international real estate investor. While the mortgage company focuses on funds and terms availability and the investment banking firm's service centers on listing and selling equity and debt securities for clients, each offers a wider list of services. The mortgage company may sell mortgage-backed securities, mortgage bonds, and other real estate securities, and the investment banker can advise on a full range of real estate financing methods.

### **Commercial And Merchant Banks**

Found in every major city, commercial and merchant banks provide a full range of accommodations: personal finances, trust department, business financing and investment advice, international services for the multinational investor/company, and publications dealing with investment and finance within the country. Merchant banks offer investment banking and real estate investment and security listing capabilities, but commercial banks may not be allowed to engage in investment banking in the United States. A bank's international department offers foreign exchange services, and can transfer funds as needed. International banks have branches throughout the world, clustered in the international financial centers of the world, i.e., Singapore, Hong Kong, Sydney, Tokyo, New York, London, Zurich, and Luxembourg.

### **Investment Banking Firms**

Many international real estate investors prefer local partners. This may originate from national regulations or from individual or institutional preference. The investment banking firm can suggest reputable investors who are not currently associated with or who have only minor participation in foreign investment. The investment bank can provide background on the suggested partner, especially in reference to equity and debt securities and in the secondary trading in blocks of stocks or bonds.

The prospective real estate investor should ask for suggestions on the availability of alternative financing. The investment banker may suggest the sale of real estate syndicate, partnership, or corporate shares in the incorporated real estate venture, sale-leaseback with an institution, bank commercial loan financing, mortgage loan financing, or the sale of mortgage bonds to finance the property. Since investment banks deal in business financing daily, they are a good source for financial advice.

Real estate securities may be sold on a local exchange near the investment property or in another country. The investment banker may suggest the preferred forms of

security financing, and outline listing requirements to finance the entire investment.

The same bank may syndicate real estate, prepare credit analyses on possible joint venture partners, and rate the various types of securities—mortgage bonds, mortgage-backed securities, collateralized mortgage obligations, and real estate syndicate offerings.

### **Mortgage Companies**

Mortgage companies provide important advance information to real estate investors, especially in the United States, West Germany, and Sweden. Mortgage companies are well versed in equity as well as debt servicing, for large real estate projects, and can advise the investor on yielding equity investment and real estate debt with appropriate yields.

### **Real Estate Consulting And Advisory Firms**

Several worldwide, regional, and national real estate counseling firms are available to the international real estate investor. They are well versed in local and national property markets, and can calculate the going yield on property, given the general cash flow characteristics in the market place. They also can provide independent market and feasibility studies which may be required by prospective equity and debt investors.

### **Advertising Agencies**

Major advertising agencies are located in key metropolitan centers to aid the real estate investor in developing and promoting image, property potential, the prospective resident's desire for a property's characteristics, and the real estate environment. The agency can establish a marketing plan, an appropriate budget, and commercial presentations for appropriate media. Commercial art, slogans, advertisements, coordinated displays, printed literature, and other materials can be coordinated by an agency in-house for a uniform presentation to insure maximum market exposure with the greatest financial results. Once the client establishes advertising objectives, an agency can create a campaign reaching those goals within an established time-frame and budget.

### **Real Estate Brokerage Or Estate Management Firms**

The real estate brokerage firm, peculiar to the United States, offers leasing and selling services to a client on a contract basis. In contrast, traditional English estate management firms contract for a broad range of services, hoping to represent the client over a long period. In the United States, real estate brokerage stops as soon as the contract is fulfilled, i.e., the subject property is leased or sold.

The estate management firm has fees related to full service functions while the brokerage firm charges for each contracted activity. Usually the broker contracts to sell or lease property and is paid a commission when the transaction is consummated. Brokerage commissions,

common in the United States, are 3-8% of the final sale of a house and 3-5% of the final price or lease value of a commercial property. The commission structure is much lower percentage-wise in Europe than in the United States.

### Trade Show And Exhibition Hall Operators

International real estate often may be marketed through real estate trade shows in cities easily accessible to prospective purchasers and lessees. These are annual or biannual events, i.e., the Realex Real Estate Trade Show is held each spring in Hong Kong.

### Real Estate Portfolio Management On A National Or International Scale

There are expert portfolio managers for international equity and debt securities, stock and bond mutual funds. Financial institutions worldwide also deal in national and international security analysis for their clients, trust department portfolios, and mutual funds. Often portfolio managers who analyze regional and international equity and debt securities have dealings in real estate securities. (See Table 1)

International real estate portfolio managers are found mainly in the investment departments of the large life

TABLE 2

Top-Ranked U. S. Real Estate Portfolio Managers (Millions of U. S. Dollars)

Company/Address	Total Assets Under Real Estate Portfolio Management	Number of Pension Fund Real Estate Clients	Total Pension Fund Real Estate Assets Under Portfolio Management
Aetna Life and Casualty Co. Hartford, CT	\$16,000+	427	\$2,197
Coldwell Banker New York, NY	650	40	650
First Equities Institutional Properties, Inc. Atlanta, GA	81	8	81
Mellon Real Estate Investment Management Corporation New York, NY	700	7	700
Frank Russell Trust Co. Tacoma, WA	39	13	39

Company/Address	Breakdown of Assets Into Real Estate Holdings	Participation Offered	Geographical Diversification
Aetna Life and Casualty Co. Hartford, CT	Properties—\$585 million Partnerships—\$379 million Participating Mortgages—\$347 million Mortgage Loans—\$82 million	Open-end commingled equity and mortgage accounts, closed-end equity accounts, separate accounts, individual property and/or depositor separate accounts	National
Coldwell Banker New York, NY	Income-producing properties—100%	Limited partnership interest	National, concentrating in areas in excess of 1 million population
First Equities Institutional Properties, Inc. Atlanta, GA	Income-producing properties—100%	Direct or commingled; equity, debt or hybrid debt including land sale-leaseback/leasehold loan	National
Mellon Real Estate Investment Management Corporation New York, NY	Income producing properties—60% Mortgages—40%	Individual direct real estate investment accounts participation in closed-end commingled funds	National
Frank Russell Trust Co. Tacoma, WA	N/A	Open-end; units of participation	N/A

Source: Adapted from: *Pension World*, December, 1985, p. 55.

**TABLE 1****Main Institutions Providing Beta Estimates**

<b>Institution</b>	<b>Area</b>
AMRO Bank	Europe
BARRA	Europe
Data Stream	Europe
Gestion Financiere Priveee	Europe
Hengst Investment	Europe
London Business School	Europe
Munchmeyer	Europe
Quanto	Europe
Schroder	Europe
Wells Fargo	Europe
A. G. Becker	United States
Boston Company	United States
Keystone	United States
Merrill Lynch Pierce Fenner & Smith	United States
Morgan Guaranty	United States
Oliphant	United States
Paine Webber Jackson & Curtis	United States
Barr Rosenberg & Associates	United States
Value Line	United States
Wells Fargo	United States
Wilshire Associates	United States
Burns Fry	Canada
Canavest House	Canada
Wood Gundy	Canada
Daiwa Securities	Far East
Nomura Research Institute	Far East
Nikko Securities	Far East

Source: Dimson, E., "The Trade-Off Between Risk and Return," unpublished paper, London Business School, 1980, and personal correspondence with the author. Appeared in: Dobbins, Richard and Stephen F. Witt, *Portfolio Theory and Investment Management*. Oxford, England: Martin Robertson, 1983, Table 7.1, Main institutions providing beta estimates.

insurance companies and pension funds. With the development of collateralized mortgage securities and international real estate syndications, these portfolio managers are able to analyze new international offerings and start selective investment of securities originating in various Eurocurrency capital markets.

Possible sources of international portfolio management involving real estate ownership and securities include full service real estate brokerage and estate management companies, real estate syndicate managers, property trust managers, merchant or investment bankers with large real estate and securities departments, and large pension fund managers and advisors.

### **Law Firms**

Many major law firms, like accounting firms, have personnel specialized in real estate investment and security areas. Often attorneys or solicitors conduct real estate feasibility studies, as a part of their full service to clients. An investor needs advance assistance in his home country while he acquires his portfolio, and then needs legal advice in each foreign country where he holds property.

### **Real Estate Trade Associations**

Most countries have real estate trade associations. The investor can find such associations headquartered in major cities of the world. They can provide information on their country's government and business affairs, growth and development patterns, legislative developments and regulations, financial and tax incentives, and contact with their counterparts in related international real estate trade associations in other parts of the world.

Associations usually collect data from their members and publish it for general use. Information is available on industry performance and productivity, which is important to the investor.

### **Conclusion**

The international real estate investor has professional, accurate and reliable information and services available from all aspects of the real estate and business worlds to assist in making sound investments worldwide.