

# CRE PERSPECTIVE

## DOING BUSINESS DOWN UNDER

by *Theddi Wright Chappell, CRE*

"Relationships and Performance", two of the key buzz-words for doing business in the 1990s, did indeed, create the opportunity for my company to capitalize on the globalization of real estate services in 1990. Acting on a perceived time window of opportunity and leveraging off of an existing relationship with a truly visionary client, Landauer Associates, Inc., was given the option of either opening an off-shore office halfway around the world, or losing a substantial chunk of revenue and the opportunity to enter the global foray. We chose the former, and I was the individual selected to open and manage our first off-shore office in Sydney, Australia.

The relationship developed because of long-term advisory services provided by one of Landauer's senior professionals, Helen Jones, CRE. Ms. Jones, who was actively involved in valuing and counseling services for various properties in which a major Australian corporation had an interest, was engaged to review more than 40 properties throughout Australia on the basis of what our clients termed "international best practice". Our initial brief was to ascertain the level of consistency between the U.S. and Australian marketplaces with respect to: valuation methodology, asset management practices, physical facilities, and a focus on maximizing returns. With the United States being perceived as the leader in global real estate trends, the practices embraced in our marketplace were seen to provide the best benchmark for evaluation.

We embarked on this assignment in the fall of 1990, when we were asked to review two of the largest properties under our client's management: a suburban regional retail center and a mixed-use office development in downtown Sydney. We were off-shore for a month, trying to assess a distinctly unique marketplace with dramatically different lease parameters, recovery provisions, and market benchmarks. Availability of data was a critical issue; there were virtually no independent, non-brokerage related sources for population, demographic, or market data. Consequently, our best resources consisted of a few specialized service providers, the Australian census, and an abundance of direct primary research.

After our original reports were favorably received, we then transitioned to a quarterly format of two to three week visitations. During these visits we performed property inspections and primary research in various Australian markets and then returned to the U.S. to complete our analyses. This modus operandi continued throughout 1991 and into the first quarter of 1992. At this time communication was primarily via facsimile, and enormous amounts of tenant and market data were transferred across the Pacific on a 24-hour basis. Computer disks were also utilized, but there was always the potential of compromising the data during shipment.

During our visits it became apparent that the analytical and valuation procedures, as well as the standard of reporting employed in the U.S., were far more stringent than had historically been the case in

Australia. In addition, our work contacts indicated a number of other leading institutions and major corporations also wanted to explore the possibility of working with Landauer. Seizing this window of opportunity, we identified our capabilities and the decision was made to open our first off-shore office. Ms. Jones made the decision to remain in the U.S. in a supervisory capacity, and I took on the responsibility of establishing the Landauer operation overseas.

### Differences Abound

I suppose it is impossible to foresee all the challenges that would arise in a new marketplace, and we certainly encountered a number we had not anticipated. Overall, our own market research and the assistance of our clients enabled us to overcome the major hurdles. There are some very basic differences in work attitudes between Australia and the U.S., and anyone operating there should be cognizant of, and very sensitive to, these differentials. Depending upon the profession, Australians are not inclined to work overtime without direct, commensurate rewards. For the most part, salaried professionals are expected to be able to work within the defined parameters of a traditional "9-to-5" workday. If you did encounter individuals working late, it was typically the senior, not the junior professionals, unlike many workplaces in the U.S.

Two other areas in which a degree of attitudinal dissimilarity existed between the Australian and U.S. workforces were the basis of pay raises and the responsibilities of employers/employees to one another. Non-salaried Australian workers are paid on a scale, much like the American minimum wage scale. However, increases in wages

are automatic, given increases in age and time on the job. Therefore, in most instances there is very little, if any, correlation between a higher level of performance and commensurate increases in remuneration. From a typical American perspective, this situation creates a stumbling block in motivating individuals on a performance basis. It also basically dictates salaried positions, versus pay based on wage rate scales. Though potentially more expensive initially, overtime costs are eliminated using salaried positions, and over time, I believe flexibility with comp time serves to offset and better control employee costs.

From an employee perspective, Australian employers appear more socially responsible in the treatment of their employees than typical large, U.S.-based corporations. In general, Australian employers allow more latitude in employee performance and skill levels, and make more of an effort to place employees in alternative positions within the company, rather than to dismiss them. In the first quarter of 1995, legislation was enacted to further protect employees from employer injustices and basically reaffirm the ever-prevalent Australian belief that, "the more fortunate members of society have an irrefutable responsibility to the less fortunate." This is further exemplified by the presence of socialized medicine and the long-term strength of the labor movement in that country.

Doing business as an American in a very small marketplace also proved a challenge, considering there were a number of statutory requirements. The Australian valuation profession was regulated when I arrived and therefore, I had to meet its various requirements to practice. Given the rather hostile resistance to competition,

particularly from a foreigner (not to mention a female foreigner), their processes proved more of an obstacle than we had initially anticipated. However, with the guidance of a few (very few) supporters within the industry, a lot of personal interaction, and a healthy respect for the values of both Australian professionals and their credos, I was successful in obtaining formal registration. According to research done by the Institute of office in New South Wales, I was also the first American to simultaneously both hold the MAI designation and become a member of the Australian Institute of Valuers and Land Economists.

#### **America/Australia . . . The Cultural Subtleties**

Given the general stereotypical expectations that many ex-patriots encounter while working abroad, I had a lot of work to do to dispel the myths that: Americans thought they had all the answers; knew more than their counterparts in other areas of the world; and were basically incapable of adapting business practices to accommodate foreign cultural subtleties. I had never been a "foreigner" before, and the experience was an incredibly humbling one. Americans are viewed as being a bit "over the top" with their overt patriotism, and in general, there is a definitive, though subtle, love/hate relationship between the Australian people and the U.S. They view us as quite insular and wonder why we do not travel more. In many cases, they assume we consider ourselves above needing to be familiarized with other parts of the world. Though these comments are certainly generalizations, and do not pertain to the more well-traveled Australian professionals (who made up the core of our clientele), it was surprising how many times my family and I

heard similar remarks.

I found that as a foreigner, one is always an ambassador, whether you want to be or not. If you are in a position of authority, or chose to participate in your industry on a larger scale, you are automatically charged with the responsibility to represent both your company/profession and your country accordingly. During the three years that I was in Australia, I was asked to speak at several national conventions; I was interviewed a number of times by different magazines; I was asked to prepare and present papers for the Securities Institute of Australia for their graduate diploma program; and was invited to a variety of Boardroom lunches, among other activities. In every instance it was essential I remained cognizant of the fact that I was an ambassador for: 1). Landauer; 2). the counseling profession; and 3). the United States.

#### **Soliciting Business Down Under**

My CRE colleagues at Landauer had taught me that in conducting business overseas, you always have to *ask* for the business; so in Australia, I wasn't shy. Every new business tap dance was followed by a request to give Landauer just one chance to show a potential client what value we could add for them. To get our foot in the door, I would initially suggest giving us a small assignment, though I would stress our ability to handle complicated property types and would mention my special love of large retail. As it turns out, I converted each of these opportunities to additional work! Over 90 percent of the time, I ended up with their largest, most difficult regional shopping center to evaluate. It appeared that if they were going to use us, they were really going to put us to the test.

## The Marketplace

There were differentials in market timing that we were able to use to our advantage. With some variation, trends in the Australian property market have historically lagged the U.S. by two to three years. We entered their marketplace at the bottom of the first major recession in quite a few years. Our experience had been to make forecasts that incorporated a consideration of downturns in various property sectors. Interestingly, the majority of younger professionals in the Australian real estate market had never experienced a downturn, nor consequently how to deal with projections that considered anything other than continual upward trends. In fact, most had dealt only with forward projections of 12 to 24 months, although our clients were utilizing cash flow forecasts of at least 10 years; sometimes longer. This was in a market where actual holding periods for major properties were generally 15 years or more.

The cap rate was still king in the valuation community when we opened our office and this posed some obstacles to finding individuals with minds open and progressive enough to be willing to incorporate cash flow analysis in their work. There were proponents of cash flow analysis in some of the larger practices within the industry, but they were in the minority. Our work product was enhanced by utilizing both cap rate and discounted cash flow (DCF) analyses and by going through those analyses independently. The Australian practice was to select a cap rate, then use the DCF as a check. This procedure involved inserting the selected cap rate as both the going-in and terminal rates, and then imputing an IRR, as opposed to relating the discount rate to a market-required rate of return. Despite

the commonality of this practice, I must re-emphasize that there are, extremely technically-savvy and forward-thinking professionals in the Australian real estate industry; there are just very few of them. This is easily understood, given the country's total population of only 17 million, thereby offering a commensurately small pool of highly-skilled professionals.

## Property Analyses

While working in Australia, Landauer adopted a national and international, perspective regarding property analyses. We primarily dealt with major regional shopping centers and mixed-use office developments, which were definitely traded nationally or internationally, and very seldom "locally". We covered the entire continent and had first-hand knowledge of all the major properties, their competition, and competing marketplaces. This gave us a definitive advantage over reliance on local agents who were almost solely familiar with their own specific markets. This is not to say we did not rely heavily upon the local practitioners: we could not have completed our assignments without their assistance. At the same time, we were able to raise their local knowledge to a higher plateau of comparability, use it to enhance our own analyses, and provide a wider property perspective.

## Technical Difficulties

Two of the major technical difficulties we encountered were: a dearth in research resources, and no formal or publicized tracking of demand for any of the real estate sectors. Often in the U.S., we take for granted the availability of research services and data. I am sure those of you who have done foreign assignments can commiserate with the fact that the rest of the

world has not yet "come to the party" regarding the provision of data. As noted previously, we relied heavily on primary research, as well as our own confidential data bases built from information provided in our various assignments.

We found a number of instances in which clients felt they owned enough properties to accurately assess market practice, only to find that the market they were assessing was specifically theirs - and did not necessarily compare favorably to the open marketplace. In one instance, a review of operating expenses at a major suburban property revealed that the owner, a service provider for one of the variable expense categories, was costing its services at levels above those typically charged in the wider marketplace. No one was more surprised than they were.

As previously noted, at that point in time there were no groups tracking demand for different property sectors. When I was recalled to the U.S. in mid-1995, BOMA\* had just begun discussions on how the tracking of demand for CBD office space could be implemented. By now this has most likely been accomplished; however, at that time, it posed a continual challenge in forecasting absorption with virtually no market data. *\*(Note: BOMA in Australia is a much more politically-active property group than the informational organization that exists in the U.S. It has now been transformed into the Property Council of Australia).*

## All-in-All . . .

From a personal perspective, challenges arose in coordinating the logistics of moving a family half-way around the world; adjusting to primarily single-sex schools with required uniforms; dealing with differentials in cost of living



and tax equalization, (which incidentally requires a true specialist if you and your company are to survive). However, at the end of the day, all proved to be challenges well worth the undertaking. The insight gained through this international experience by both my family and me could never have been accomplished without actually "living the dream." In retrospect, the difficulties and obstacles we overcame now seem minor compared to the professional growth and greater global perspective derived from the experience.

As a result of this assignment, I am convinced that we must address property and all its issues on a global basis, and almost every professional publication I read seems to support this premise. I

am equally convinced that the role of Counselor is absolutely the one we must serve in the future. Landauer's Australian practice, which began primarily as a valuation exercise, evolved into a counseling and consultancy that spanned almost all property types and incorporated everything from strategic lease analyses and assessing redevelopment alternatives, to maximizing tenant mixes and cash flows. I hate clichés, but "adding value" and international best practice was definitely what it was all about. I do not expect that to change.

One last observation is that as CREs, we have the capability to transcend the geographic and organizational limitations of other professional organizations, and

position ourselves successfully as global advisers. Based on the skill-sets and expertise within The Counselors, we should be able to identify and capitalize on opportunities across borders and professional designations. Our primary goal is the provision of the best and most advanced services for our clients, and as such, the synergistic potential for our group, on a worldwide basis, is unsurpassed. I hope we will meet this challenge.<sup>REI</sup>

**Theddi Wright Chappell, CRE**, is Managing Director of International Advisory Services for Landauer Associates, Inc. She is responsible for the firm's development and implementation of international advisory services for both U.S.-based and foreign clients.

## "Are You sure You know what You need for Your Overseas real estate Venture?"

You will be faced with different laws, currencies, methods and measures - a risky business when you don't even know what you don't know. Yet, you want a venture that **maximizes value** and **saves you time** and effort in the process. So who can you ask to ensure you do it the best possible way? A real estate counseling firm that has **connections worldwide with locally based knowledge**. You need to use our international alliance...

**Landauer/Fuller Peiser/Grant Samuel**  
**U.S.A      Europe      Asia Pacific**

Landauer's **renowned, research based** U.S. experts are now allied with the leading real estate counselors of Fuller Peiser in U.K. and Grant Samuel in Australia. Our international team will provide you with **wide ranging expertise** and an in depth understanding of the **local real estate market**. We make sure your international ventures are **confident investments**. No matter where in the world they take you! Give us a call.

### **U.S.A Contact:**

Steve Kaplan, President & CEO  
LANDAUER Associates Inc.  
1.800.200.3009  
Fax: 972.774.1992  
Internet: [www.landauer.com](http://www.landauer.com)

**Landauer/Fuller Peiser/Grant Samuel**

*The Right Solutions at the Right Time  
with the Right People*