



Integrating the Global Marketplace

Now is the time to think about real estate in other countries. Global change is bringing international investing into more manageable focus. Modern technology and travel make it easier to own property, whether it be multifamily, office, retail or industrial.

Forces of fragmentation still exist on the global level, forces such as war, environmental degradation, chronic malnutrition, underground economies and terrorism. Nevertheless, forces of integration are also at work—expansion of world trade, technology transfer, access to knowledge and the search for world citizenship. These, I believe, are the more dominant forces.

Countries are privatizing industries, and private property rights are emerging worldwide, presenting new opportunities for real estate entrepreneurs who are prepared for challenges and equipped with adequate and transferable skills. Other trends that will integrate global real estate markets include:

- The stabilization or growth of most national economies, which is a real demand driver;
- The increase in international and regional capital flows for real estate;
- The development of market reforms and trade liberalization, which are increasing as anti-capitalist sentiment (such as that found in socialism) decreases;
- Flourishing democracy is opening markets to international financial influences; and
- The swelling (by as much as four times any previous rate) of private capital flows.

With these integration forces at work, we can, with some reasonable degree of confidence, make some predictions for international real estate. Expect to see:

- Continued growth in public equity markets;
- Increased capital flows into U.S. mutual funds;
- An increase in U.S. pension funds

researching foreign markets;

- Emerging market reforms (probably in the next five years);
- More foreign investment and more property rights; and
- Increased data research.

Before you jump into overseas markets, you should be well aware of the differences between investing in the U.S. market, which is homogeneous and has a great deal of information readily available, and investing overseas. One must consider culture, economic climate and negotiating behavior. For example, while sharing a number of historical similarities in terms of European exploration and colonization, Brazil and the U.S. differ significantly in culture and economic development. Both culture (the shared beliefs of a populace) and economic climate can affect how people negotiate social and business contracts, as well as what is deemed

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appropriate or ethical behavior in a negotiation.

So the need to understand differences in beliefs and behaviors becomes imperative as you begin to invest offshore, and cultural context becomes an important factor. In certain cultures, like many Latin American countries, the social context of a negotiation often is more important than any written, legal documentation, while in other cultures (like ours), the social context surrounding a negotiation often goes unat-

tended or is easily dismissed in favor of getting down to business.

So in Brazil, negotiations are likely to be slower and more ritualistic, since familiarity and trust are not only a precursor to doing business but the basis of a business relationship. This can make any professional exchange there enjoyable and more interesting.

While you should go through your normal analysis for offshore investment, I feel that some additional risk analysis is appropriate in selecting a country in which to expand. Since you will probably want to take out profits, you should follow the laws with regard to repatriation of capital and profits and get a feel for the general credit risk of the country. You must consider the economic obligations of that country as well as the current account deficit or surplus, its status with the International Monetary Fund and exchange-rate stability.

Look to the increase in GDP, consumer prices, total debt and the trade balance figures to give you an economic forecast summary. The political risk should be evaluated also. What is the form of government? What are our government's relations with that country? Is there political stability?

Risk is relative. Some might want to take a flyer on a hot property even in a country where there is less economic and political stability, if they feel the rewards are high enough. But, most would not take the chance, unless they see a very fast payback.

When you look overseas, plan on seeing the different risks as well as the rewards. And know that both can be great.

(REAL ESTATE FORUM's Special Section on Global Opportunities begins on page 40.) ■

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