Investing Worldwide

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COMMERCIAL REAL ESTATE PROFESSIONALS WHO DO MOST OF THEIR BUSINESS IN THE U.S. OFTEN FOCUS ON THE LOCAL RATHER THAN THE INTERNATIONAL PICTURE.

Yet in today's fast-globalizing economy, that may be a short-sighted stance to take. In the last 10 years, the world has become a much smaller place and the U.S. real estate markets already are affected. For example, consider how the increase in volume of Asian imports is changing the U.S. warehouse and distribution industry. By the same token, corporate America's acceptance of outsourcing is sending U.S. real estate executives to such markets as China and India to oversee development, acquisition and leasing of space for U.S. companies. Sooner rather than later, more globalization factors are going to affect local real estate markets. Those who are aware of where we are headed are better able to act, rather than respond, to these events.

The Corporate Revolution

Strong market forces have changed the way corporate America and the world do business today, particularly in relation to emerging global markets. These forces of change have created a new measure of success in terms of companies competing in a world gone "flat," according to *New York Times* reporter Thomas L. Friedman in his best-selling book, *The World Is Flat: A Brief History of the Twenty-First Century.* Technological, political and economic changes in the last seven years have shrunk the world from small to tiny and flattened the playing field, Friedman contends, giving the power to individuals to collaborate and compete globally. As a result, old business models involving centralized control and minimal leveraging have given way to a new model that allows for leveraging of new processes and creating opportunities for horizontal collaboration.

This new paradigm even affects the course of emerging businesses. For example, a recent venture capital conference in Silicon Valley revealed that today's venture capitalists are far more critical of new business offerings than in the past. A primary consideration for funding a new company is assurance that the business model demonstrates a global deployment of staff and resources. The 20/80 rule dictates that new firms invest only 20 percent of the funds in the U.S. and 80 percent internationally. The logic is simple. Venture capitalists have seen that resources in markets such as India and China are less expensive, readily available, and operate largely on a 24/7 work ethic. By taking full advantage of these resources, companies are leveraging the venture capitalist's investment fully, translating to a greater return with a more balanced business plan.

Managing a Global Team

Fortune 500 corporations have been outsourcing non-core business services to India and China for years. Clearly, this is not a passing trend, but rather a global business evolution.

But corporate America has found that managing a global team requires adaptability, which can be challenging. Most companies manage existing business activities well, but find it much more difficult to incorporate long-term changes into their global business plans and operations. Deeply ingrained in the heart of most organizations are three basic barriers to adaptability:

- management team inflexibility;
- increased organizational complexity; and
- poor alignment between current resources and future opportunities.

Overcoming these barriers to adaptability requires a rethinking of an organization's "social architecture" – the bringing together of individual behavior, structure, and culture, which determines a company's long-term performance.

Approaching Global Expansion

To successfully expand globally and maintain a competitive advantage, a market-driven strategy combined with a respectful and cautious approach to foreign markets is necessary. Crucial to a company's global viability is the ability of its top executives to think and act indigenously in each market while increasing international reach. The business strategy should not be limited to establishing a geographic presence in China, India and other emerging markets, but should specifically outline the resources inherent to each region to take advantage of existing and future business opportunities and ensure an understanding of local industry, customs and cultures. As with any endeavor, doing one's homework in advance – in this case examining legal, financial and real estate regulations and practices – is a prerequisite for success.

Corporate real estate service providers are helping companies meet this challenge by replicating their traditional line of integrated services – brokerage, consulting, transactional and lease management – on a global scale. Often, that requires partnering with local resources and ultimately committing more resources to offshore markets, possibly at the expense of U.S. markets. Whether the 20/80 rule will apply to multinational real estate companies remains to be seen, but clearly, if clients are moving to global markets, corporate service providers must move with them. While India and China currently attract the more attention from corporations, experience in these countries sets the stage for further exploration into other global markets, Southeast Asia and Latin America in particular.

The Asian Attraction

There is a compelling rationale for doing business in Asia, particularly in India and China. The business environment in this dynamic region is constantly evolving, and China and India will continue to be the top markets to watch in coming years. U.S. companies are rushing to do business in Asia for a number of reasons, including:

- lower-cost raw materials, components and products;
- supply chain improvements enabled by locating closer to customers who are increasingly building plants in Asia;
- relatively inexpensive, educated and seemingly unlimited labor: for example, direct labor in China runs at roughly one-tenth of U.S. cost;
- access to growing consumer markets in the world's most populous countries;
- low cost of capital and a myriad of tax incentives.

While both India and China are recipients of U.S. corporate-funded growth, China has received more real estate development attention, primarily because of its potential for consumer growth. For example, China has 38 cities with more than 1 million people; the U.S. has nine. China's labor force is nearly 800 million people; the U.S. labor force is 147 million people. With such a clear demographic advantage, China has emerged as a major business, economic and political force. U.S. direct investment in China includes manufacturing hospitality and chain restaurant projects, and petrochemicals. U.S. companies have established more than 20,000 equity joint ventures, contractual joint ventures, and wholly foreign-owned enterprises in China. More than 100 U.S.-based multinationals have projects in China. Cumulative U.S. investment in China is estimated at $54 billion, through the end of 2005, making the U.S. the second-largest foreign investor in China according to the U.S. State Department.

Potential technical breakthroughs to watch for in China include plant genetics, biosciences research, wireless applications, semiconductor device development, flat panel technology, automotives and online games. These growing industries ensure that China's future in research and development is solid.

The country's leadership shows a great deal of interest in intellectual property development. Recently appointed generals have all completed postgraduate studies, and all are firm believers in the application of technology. As technocrats, they do not believe China can become an economic power without proprietary technology, and they chafe at the idea of paying royalties on core technology and protocols.

Future Interests

India and China will continue to be the top markets for corporate expansion in the coming years. A combination of abundant resources, highly educated, low-cost labor forces, 24/7 work ethics, labor and tax incentives for multinational companies, and rankings as primary consumer demographic opportunities in the world for growth, they show no signs of slowing down. Other international markets to watch in terms of new outsourcing solutions will include Vietnam and select Latin America countries.

Ongoing challenges will continue to impact the current wave of global expansion, including changes in interest rates, oil prices, terrorist activities and governmental trade restrictions. Still, the impact of globalization is too large to be ignored.

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