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The Impact of **e-Property** on International Real Estate



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The Impact of e-Property on International Real Estate



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The Impact of e-Property on International Real Estate

As electronic commerce expands, electronic property commerce - a subset of electronic commerce - expands. We can view the initial impact of a property (abbreviation for electronic property) on international real estate in contrast somewhat to the initial impact of e-property on domestic real estate. As we hear about the rapid growth of electronic retailing (abbreviated usually to the word "e-tailing"), we can look at the impact on international real estate of a property marketing on the retail and wholesale levels. Electronic retailing is merely a part of electronic marketing, e-tailing is a rapidly expanding part of global marketing in general. But e-property commerce involves more than electronic property marketing, Admittedly e-property marketing and finance appear to be the most pervasive uses of the web at present. But property management, construction material and other product procurement, title assurance and transfer, and other real estate functional areas will soon be active parts of international e-property commerce.

Initial Perceived Threats to International Real Estate

International real estate company revenues and profits are threatened. New dotcom companies may take sales away from established international companies who have higher entrenched costs due to multi-service offerings to clients and prospects.

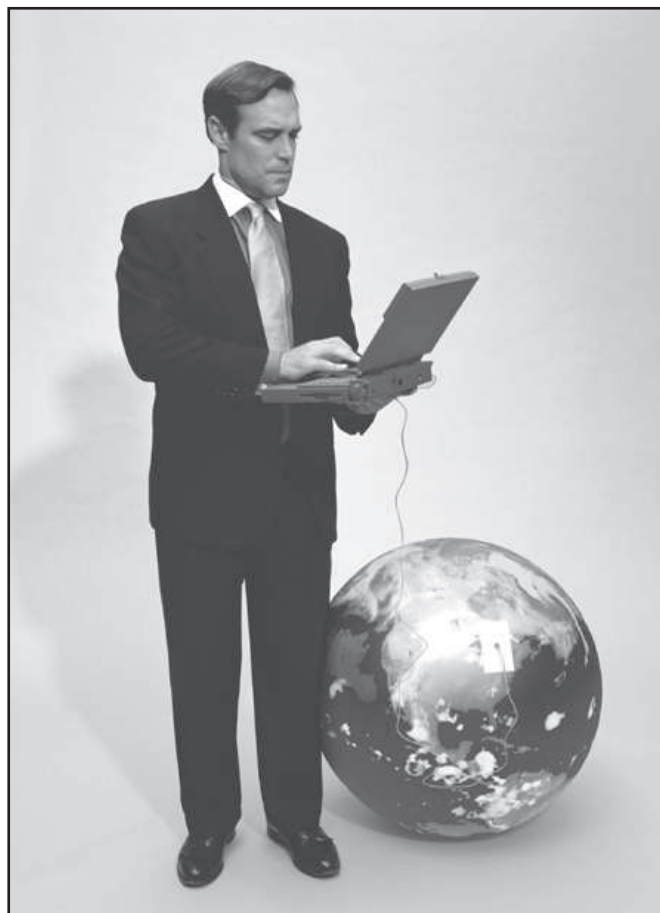
Individual jobs with international real estate companies are threatened, Prospective customers can satisfy at least part of their requirements through use of the web, the traditional estate agent/real estate agent may be less needed. The increased competition via e-property commerce may cut commission and fee income for individuals and companies. If the agent's services are less valuable to the prospective customer due to the information found on the web, why should the customer pay the agent the traditional commission/fee for less services?

Initial Perceived Benefits for International Real Estate

The opportunities for easier and cheaper communications from e-property commerce may be perceived by any potential or current international market participant. Electronic mail and intranet, extranet, and internet services which are infrastructure for e-property commerce may reduce costs and increase service. *Intranet* service enhances inter-company

communications while extranet service enhances company communications with prospects, customers, suppliers. The general public continues to be served by website information on the *internet*.

Electronic mail, that has reduced distances in the global real estate village, has been found to



be easier, faster, and cheaper than “snail mail,” a label given the regular mail service, and express mail services. Of course, e-mail does not replace the regular and express mail services; e-mail is merely complementary to the existing public and private mail services.

Some Perhaps Unexpected Long-Term Costs for the International Real Estate Company

Companies venturing into e-property commerce may or may not anticipate some possible long-term costs. The development of a web site that entails a home page and perhaps many supportive pages just starts the process that is associated with large costs. The maintenance of the web site through constant changes that interest repeated visitors to the site entails its continuous expense. To make the web location known, advertisement at other web sites and in the various television, print, and broadcast media entails considerable expense. There is a movement toward use of broadband telecommunication system so that voice and data may be combined effectively in one medium. Installation, training, and maintenance costs are associated with broadband telecommunications systems. Longer term the web site owner and company webmaster should anticipate costs associated with language, currency, and space measurement conversion as software is developed for e-commerce.



Web Page Development and Maintenance Costs: Internet, Extranet, and Intranet

Costs of constructing and maintaining effective web pages are increasingly found to be higher than expected. The multi-page web sites generally are prepared by specialists who may be called web masters who are employed by the international real estate company or who are outside consultants. The payments for their specialized services are sometimes unexpectedly high. Then the maintenance and further development of the multipage web sites

are reserved again for the computer specialists whose services are costly to the international real estate company. According to current sources, the web site of the international real estate company is subject to change about every three weeks in order to preserve advantageous advertising and communication positions on valued search engines and related web sites.

High-tech companies in Asia, Europe, Canada, the United States, and elsewhere have been successful as systems integrators, a distinction that means the companies build computer networks and tailor software packages to customer needs. The Hong Kong-listed Computer & Technologies Holdings company (C & T) is a veteran producer since it was established in 1991. Unlike many dotcom companies, this company - that has a strategic relationship with the Hong Kong conglomerate Hutchison Whampoa - is profitable. Another important tie of C & T is a vendor



relationship with Cisco Systems for the China market. A company founded in Texas in 1993 and listed on the Nasdaq Stock Market is Asiainfo Holdings, that has its headquarters in Beijing. This designer and builder of internet networks has China Telecom and China Unicom among its

customers. A subsidiary of Chinadotcom, Web Connection, helps companies create and maintain web sites and internet strategies.

Instead of developing and maintaining only a website on the internet, the international real estate company will probably want to meet the expense of developing and maintaining a company internal intranet and an extranet for entities outside the company with which the company does business. Unlike international banks, most international real estate companies have not developed and used their internal intranets before their extranets with clients and suppliers and the internet involving the general public became necessary. The extranets generally require special software that particularly responds to passwords reserved for each separate client and suppliers. The special password protection insures the privacy of privileged information between the company and the client or supplier of services or products. The infrastructure for the internet is needed so that the company may communicate with the general public that includes prospective property sellers, buyers, owners needing property management services, entities needing property valuations, and other such property-related companies and individuals. Therefore, new costs of computer and telecom systems must be met in order to acquire and use intranet, extranet, and internet communications systems.

Marketing the Web Site



As web sites multiply exponentially with the wider and more frequent use of the internet and company extranets and intranets, the prospective visitor must become aware of the existence of the international real estate company's web site



and its helpful content. To bring about this prospective customer or client awareness and to stimulate continued business with current customers, the web site must be advertised in the popular media. The companies wishing the highest degrees of website awareness and use tend to expend large sums on television, newspapers, other print media, and radio to advertise the availability of their services and the domain names of their web sites. Pegasus Research International found, in a study it conducted for *Advertising Age*

magazine, that sales and marketing expenditures of dotcom companies as a percentage of company revenue was 94 percent in the second quarter of year 2000. The survival of many dotcom companies has depended in large part to the heavy advertising of the web-based companies. In 2000 many dotcom companies have been collapsing; some brick-and-mortar web subsidiary sponsors have withdrawn from e-commerce to rethink their web strategies.

By late summer 2000, average sales and marketing expenditures of the same dotcom companies as a percentage of company revenue had declined to 69 percent. The decline in Wall Street's valuation of dot-com company stock is at least partially blamed for the cutback in marketing expenditures. Their advertising expenses may decline even further by year 2002 to below 40 percent of company revenues. The free-spending on marketing may be replaced by a more rational approach to marketing. The research showed the immense advertising expenditure to make internet

users or prospective users aware of the company web sites and their goods and service offerings.

In order to utilize this marketing to the greatest advantage, some international real estate firms are considering the marketing of property-related as well as nontraditional products and services. As prospective customers learn the web address and the nature of the services offered, the real estate company may offer other products and services from the well-known web site to add to its profitability. In like manner, non-real estate firms are tending to offer real property for sale and for lease as they expand their traditional company services in web offerings.

Broadband Telecommunication System Cost

Broadband telecommunication systems are increasingly being sought by international real estate companies and their client-owners and tenants. To acquire and then provide this voice-data capability to customers, the international real estate company must access this fiber optic

systems such as the specialist telecommunications companies, the general management consulting firms, and other real estate companies who are more advanced in their telecommunications systems. Then the knowledge attained from the acquired technology may be passed on to prospective clients and current property owners and tenants who are being served by the firm.

The webmaster and his or her associates may require additional office space for their work. The office building housing the international real estate firm may need to be changed to meet the needs of the fiber optic cable or satellite reception system for the advanced telecommunications system. To gain economies of scale in the infrastructure provision, a number of adjacent buildings with the same or affiliated ownership may be adapted for the new technology at the same time. Or the new telecommunication system may be extended into the total tenant space of the sizable office building to gain economies of scale in the cost of telecom development.

Language Conversion



Since the transmission of web site information has no global limit but is limited only by the

or satellite telecommunications system capability and tap into this broadband infrastructure. The software must be acquired for the office computers and later television monitors so that the firm may be familiar with and use this advanced technology. The initial costs may include consulting fees payable to suppliers of pertinent information and

telecommunications systems employed by senders and receivers of the web information, communication across different languages remains difficult. Even in continental Europe Mere many citizens are multilingual, the citizens tend to prefer working or investing in real estate in their native tongues rather than less familiar languages

such as English. Communication in English is not comfortable for real estate communication for millions of potential real estate participants. This is true even though the majority of the leading international real estate companies use English as their primary and native language. The leading Japanese and Hong Kong real estate firms have adopted English as their language for communication in international matters.

The language situation in the currently buoyant continental European real estate market reminds one of the latent language problem in e-property commerce. To conduct business effectively, the web site should accommodate translation of English into such continental European languages as French, German, Flemish, Italian, and Spanish. Currently, for example, communication in Italian and Spanish is very important for international real estate companies who are finding good market opportunities in Spain and Italy due to the current market circumstances. The costs of language conversion software and web site installation will need to be incurred as e-property commerce develops. A number of web sites already employ language conversion software.

The native and primary language of many major real estate investors and tenants is not English. The French citizens have recently passed legislation that requires the use of the French language in contract formulation and publication. The use of the French language is very important to French investors even though many of the leading investors in France also speak German, English, and other languages. The Germans, Italians, Spaniards, and Portuguese are also far more comfortable in investment discussions in

their native languages where large sums of money are involved in real estate transactions. The same thing is true of Japanese and Chinese investors whether the real estate transaction involves large or smaller sums of money.

As e-commerce provides for conversion of English into Spanish, Portuguese, and French, real estate participants in Latin America and Africa will be accommodated, at least in part. Central American and most of South American business people speak Spanish; business people of South America's biggest economy, Brazil, speak Portuguese as their primary language. Many Brazilians also speak Spanish due to the constant trade and commerce with Argentina and other Spanish-speaking South American neighboring countries. Language conversion software that converts other languages into French



will accommodate more than the French-speaking community of continental Europe.

Many African countries including Morocco have long adopted French as their primary language.

Currency Conversion Costs

The adoption of the euro helps reduce currency risk in most of continental Europe. But e-property commerce reaches many countries that have not adopted by euro. The United Kingdom where many international real estate specialists are headquartered may or may not adopt the euro in the near term, in the longer term, the euro may be adopted to replace the pound sterling, according to the sentiments of the current government. The United States where some leading international real estate firms are headquartered has no desire to change its U.S. dollar to any other international currency including the euro and the Japanese are continuing to use the year; the Chinese are continuing to use the Hong Kong dollar in Hong Kong and the renminbi on the Chinese mainland. East European countries are lined up to join the European Union and to adopt the euro as their home country currencies. These countries include

Poland, the Czech Republic, and Hungary. As Greece and Turkey move toward European Union membership, they will consider adoption of the euro as their national currencies. Central European countries such as Bulgaria, Romania, and Slovenia may be considering entry into the European Union, but they are far from fulfilling the requirements for membership. They continue to use their native currencies rather than the euro. Few major real estate investors are domiciled in East and Central Europe.

Present currency conversion software for web sites must focus on the U.S. dollar, the pound sterling, the euro, and the yen. Later the increased flows of capital across national boundaries will



probably require currency conversion into the Chinese renminbi, the Hong Kong dollar, the Indian rupee, and the Australian dollar.

Space Measurement Conversion

Costs of converting space measurement dimensions may be avoided if the United States converts its space measurement system to that of the metric system. Since the adoption of the metric system by the U.S. has proceeded slowly, the cost of space measurement conversion software will probably be a factor for U.S. real estate users of the web for a number of years. If a rough approximation can be used in preliminary analysis, the number of square feet can be divided by 10 to convert the square footage into square meters. But closer analysis of competitive property values requires the use of more precise space measurement conversion.

Many publications of international real estate firms show property sale prices and rents in both pound sterling per square meter and U.S. dollars per square foot. Some companies are already puffing their previously published research reports on the web; other companies will follow. The readership is worldwide. Therefore, the spatial dimensions in the metric system satisfy the majority of worldwide readers. U.S. web viewers would benefit from U.S. conversion to the metric

system from the Imperial measurement system, i.e., square feet. English is generally the language for the presentation of the research results; the international currency for these publications is usually the U.S. dollar. Pound sterling is usually the secondary currency system employed in the reports.

The Impact of Recent International Real Estate Mergers, Acquisitions, and Joint Ventures

Recently new international real estate firms have been formed, and existing international real estate firms have been expanded. In some instances the acquiring firms have brought experience in e-property commerce to the acquired companies who have no experience or only limited experience with a property commerce. At the same time that e-property commerce demands the attention of company executives and every employee plus funding for the new technological advances, the companies are being restructured and reconfigured for integrated company operation. The confusion of the merging of business operations that often entails personnel layoffs and hirings and the establishment of new operating systems is blended with the confusion caused by the installation, training, and use of the new technology. The locations of some London headquarter offices have also changed during the merger amalgamations and rapid e-property commerce development.

The new international real estate firms have been created by three methods in general: (1) a national real estate firm has acquired one or more existing international real estate firms, (2) existing national real estate firms that are advantageously located in numerous national

settings are joined together via acquisition or joint venture, and (3) a national real estate firm has proceeded to establish new branches in widespread countries. Some firms have expanded into new international markets through multiple means. For example, one London-based company that has established branches in additional countries has been complemented by acquisition of existing domestic real estate companies while joint ventures were established with additional domestic companies in other countries. Debenham Tewson Chinnocks (now DTZ Thorpe) has become a publicly held international real estate company as it extended its branch system into continental Europe from the United Kingdom, formed joint ventures with major domestic firms in Germany and France, in particular, and extended its management and information into Asia and other parts of the world through additional joint ventures.

An international real estate firm with even greater world reach and depth and width of knowledge and services was created through the LaSalle Partners acquisition of Jones Lang Wootton. The resulting international real estate firm took the name of Jones Lang LaSalle. Chicago-based LaSalle Partners was already a dominant U.S. real estate player; Jones Lang



Wootton, based in London, has long been a leading international real estate company with branch offices in major cities across the world.

Other international real estate firms have recently taken new forms. One is the CB Richard Ellis Company based in the United States and the Japanese-owned Cushman & Wakefield/Healey & Baker company that has principal offices both in New York and London. CB Commercial Company based in the United States has recently acquired Richard Ellis and Hillier Parker May & Rowden of London. Richard Ellis and Hillier Parker May & Rowden each have had extensive international branches and have had well-known and highly respected international real estate reputations before their acquisition by CB Commercial Group of the U.S. The resulting company is publicly owned just as DTZ Thorpe and Jones Lang LaSalle are publicly owned with listed stock.

Cushman & Wakefield, that has been primarily focused on U.S. commercial real estate from its New York head office, has acquired Healey & Baker, an international real estate firm based in London. Mitsubishi Estate Company holds a majority stake in the Cushman & Wakefield/Healey & Baker Company. The close association of the Tokyo-based Mitsubishi Estate Company with the Rockefeller Group and Cushman & Wakefield Company resulted from various

business activities including Mitsubishi Estate Company's acquisition of majority ownership of New York's Rockefeller Center, a multi-building office and retail complex in a prime mid-town New York location.

Jones Lang LaSalle may benefit from the advanced e-property commerce capabilities of LaSalle Partners and its many U.S. real estate e-commerce connections. In like manner, the advanced use of electronic commerce by the U.S. part of CB Richard Ellis may benefit the continuing separate London subsidiaries, Richard Ellis and Hillier Parker. Mitsubishi Estate Company of Tokyo and its London subsidiary, Healey & Baker, may benefit from the previous e-commerce experience of Cushman & Wakefield, the New York subsidiary. Generally the

experience of U.S. real estate companies with electronic commerce in its many manifestations is considered by British estate managers to be more advanced and successful than that of other countries including those of the United Kingdom, continental Europe and most of Asia. Hong Kong has appeared in the forefront in the employment of e-commerce in Asia. Therefore, the international real estate firms with operations in Hong Kong are gaining valuable experience with e-property commerce in this Asian e-commerce stronghold.



Real Estate Company Acquisition of Web Specialist Companies

Instead of outsourcing internet needs or developing in-house capability from scratch, some companies are acquiring partial or complete ownership of web hosting and other companies whose services are vitally needed for the e-commerce world. An example is the purchase of a majority stake in Global Switch, a leading supplier of complex web hosting services, by Toronto-based TrizecHahn and UK-based Chelsfield Company. They each invested an initial \$160 million for a 33.3 percent equity in Global Switch, a company that owns and operates property for its equipment and staff. J.P. Morgan analysts have recently estimated that, by 2002, complex co-location web hosting will amount to a \$1.8 billion industry. Global Switch competes in this business with Exodus Communications Company.



of real properties, they commonly finance the same types of properties that they may attempt to sell or lease over the worldwide web. Investment banks have also entered the property sales market. Goldman Sachs Group Inc. has developed a web site for the marketing of real estate. Their new site is competing with established online real estate companies such as PropertyFirst.com, LoopNet, and RealtyIQ.com.

International Real Estate Marketing

Additional facets of international real estate marketing that we need to consider are (1) the competitive effects of e-property commerce, (2) the new marketing tools introduced by the internet, (3) the logistics requirements, and (4) additional problems that are associated with web use,

Competitive Effects of e-Property Commerce

The rapid development of e-property commerce brings with it competition from nonproperty-related dot.com companies, from financial institutions, and from other dot.com companies. Licensing laws of a country may not preclude the offering of real property for sale or for lease by non-property-related companies. Banks have particularly found it advantageous to at least test the market for their sale and lease of many types

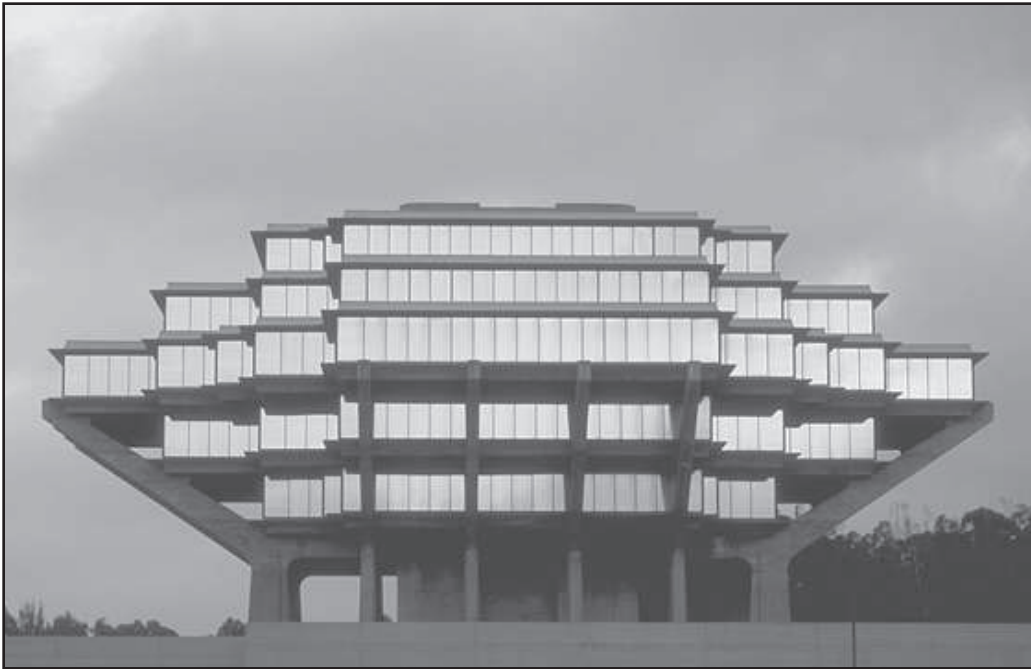
Existing and new real estate companies are challenging the established marketing firms through their web pages plus other marketing activities. The marketing significance of e-property commerce may soon be tested as web marketing matures. The well-established company will discover whether the multiple aspects of the multi-function company are contributing to the company profitability in this age of e-commerce. The dotcoms that are not affiliated with brick-and-mortar companies are not encumbered with the relatively high fixed costs of the multi-function international real estate firm. Competitors may find their marketing practices over the internet less costly and more quickly adaptable to changing marketing circumstances.

New Marketing Tools

With the use of video cameras, virtual realty is possible when prospects are given a virtual tour of

a listed property in color. Sound and movement in objects are possible with internet software. Visits to the web page may be audited automatically by use of certain internet software. Explicit auditing of web page visits may be facilitated through guest signing of guest books that are made available on specific sites. The extranet may offer the various transaction participants a method of communication for viewing the progress of a transaction.

For some time, the benefits of electronic communications have been recognized by all users.



The rapid, inexpensive method of worldwide e-mail communications has amazed most users and has reduced overall communications costs.

Logistics Requirements

As international real estate marketing firms consider marketing products and services that may or may not be related to their primary area of business, they must recognize the vital need for rapid logistical systems for product delivery. In the past their only delivery needs may have been documents requiring signatures, express mail and courier services may have satisfied those requirements. But the logistical needs of

new product offerings over the web may not be so easily solved with available express mail and courier services or these solutions may be too costly for the delivery needs.

Some Problems Associated with Web Real Estate Marketing

One major problem is the questionable accuracy of information that appears on the internet. The prospect or customer must be comfortable with the perceived accuracy of the information and the perceived honesty of each real estate marketing

person associated with a real estate transaction. Many Web users have encountered false information presented on the internet. Anybody can put anything on the web. There is no regulation that requires accuracy and honesty. Most prospective real estate customers are already accustomed to the puffing and exaggerations

that are associated with real estate in general. The puffing of property descriptions is widely recognized as a sign of exuberance on the part of the real estate marketing person.

The prospective customer is served best by real property listings that represent all properties available for sale. There is always a possibility that the marketing professionals associated with the firms that sponsor the web sites will hold back property listings from the marketing web site that they view as easy to sell or lease. More properties may be listed on the web site that are perceived more difficult to sell. The real estate agents or chartered surveyors associated with the web site

sponsors may or may not be obligated to list each property on the web site within a specified short time period after the listing is acquired from the owner or lessor.

As long as real estate marketing is a lucrative area of business, new entrants will be attracted. As e-property commerce is developing, international real estate marketing firms are getting competition from such new companies as bank subsidiaries. As banks advertise their loan offerings, they may easily advertise property listings. In the United Kingdom, for example, many financial institutions bought existing real estate companies with many branch offices in the 1980s and early 1990s in order to generate more fee incomes, generate more captive property loans, and increase institutional profitability in general. These financial institutions are familiar with the management of real estate companies.



International Property Valuation or Appraisal

A real estate agent or chartered surveyor may give the prospective client an estimated sale price from a Comparative Market Analysis that may be based in whole or in part upon property sales and listing data taken from one or more internet sites. If the real estate agent or chartered surveyor does not think the \Nab listings are comprehensive enough for the relevant market area associated with the property, the agent or surveyor may draw additional information about recently sold properties from the property's relevant market area.

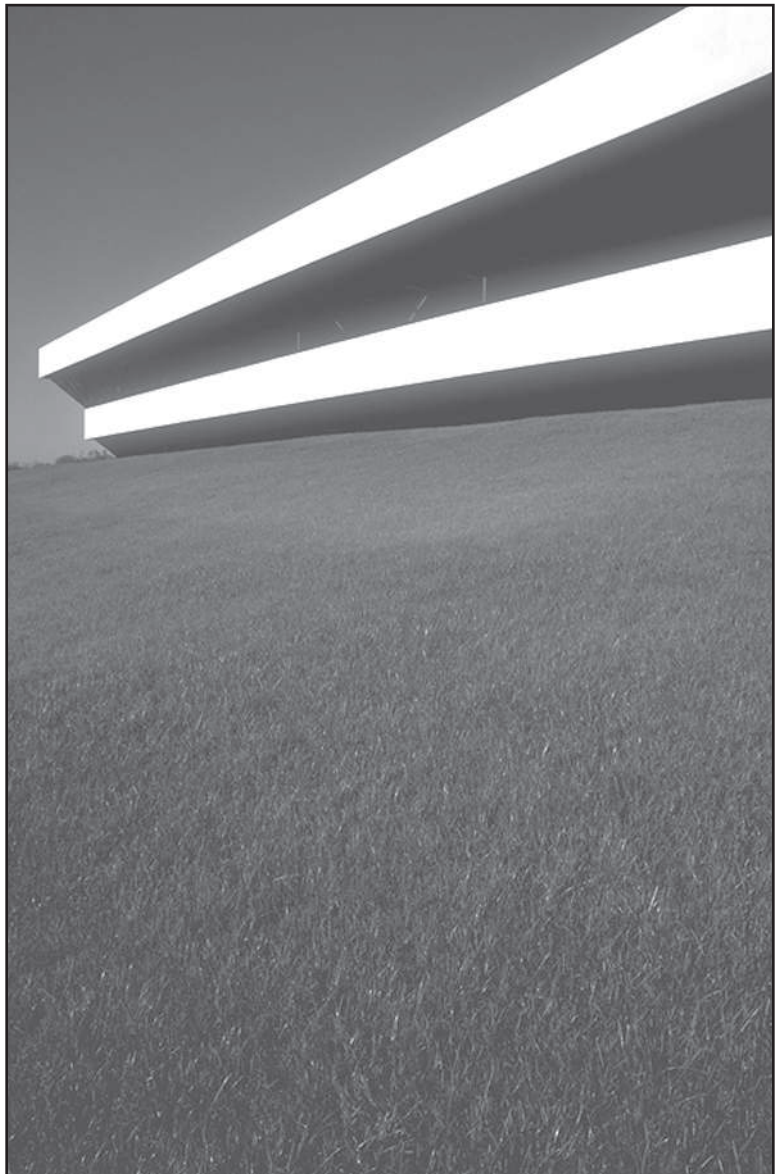
Most professional real estate valuers and appraisers with recognized designations would tend not to base their values and appraisals on information from web sources open to the general public. Valuers and appraisers could draw sales

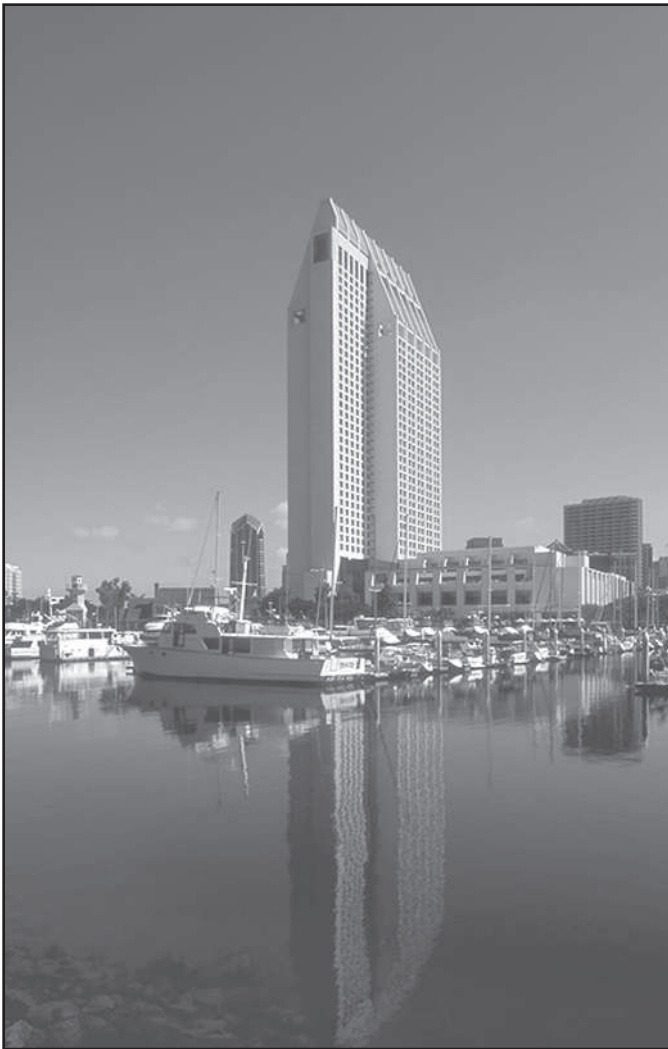
information from dedicated valuation and appraisal web sites that are closed to the general public and open by password to contributing valuers and appraisers that wish to employ validated and accurate data from comparable properties that have sold recently. Currently, members of the International Real Estate Institute, SCV-Senior Certified Valuers choose many "International Roles" share themselves as members of the association.



International Real Estate Finance

After negotiations are concluded and a sale price for the property is agreed, most prospective purchasers must finance the property. Few





properties in most international markets are purchased for all cash. After the subject property is appraised, the source for real estate finance will normally assess the creditworthiness of the borrower and will assign a percentage to the appraised value that will determine the amount that may be loaned to the prospective applicant. Most lenders will not loan 100 percent of the appraised value to the loan applicant. The loan-to-value ratio may be as low as 50 percent, in fact.

Traditional lenders often have developed web sites to advertise their presence and lending terms within the new e-property commerce. They do not wish to be left out of this growing technological area of worldwide commerce. For


example, egg.com is a subsidiary of the leading U.K. insurance company, Prudential Insurance Company. If the dotcom lender cannot quickly respond with a yes or no answer to the internet loan application, the lender can proceed to ask for more information in various forms from the applicant. At least the initial contact can be made via the web. Usually rapid loan decisions are not associated with applications involving complicated commercial properties such as super-regional shopping centers and large, multi-tenanted office buildings.

E-property commerce permits all types of lenders to operate through web sites. The international real estate firm may enter the real estate lending arena through the extended use of its established web site. Traditional and nontraditional real estate lenders may lend funds to loan applicants via the internet. The increased competition among new and old real estate lenders may result in better loan terms for applicants such as longer loan maturities, lower interest rates, higher loan-to-value ratios, and quicker decision making.

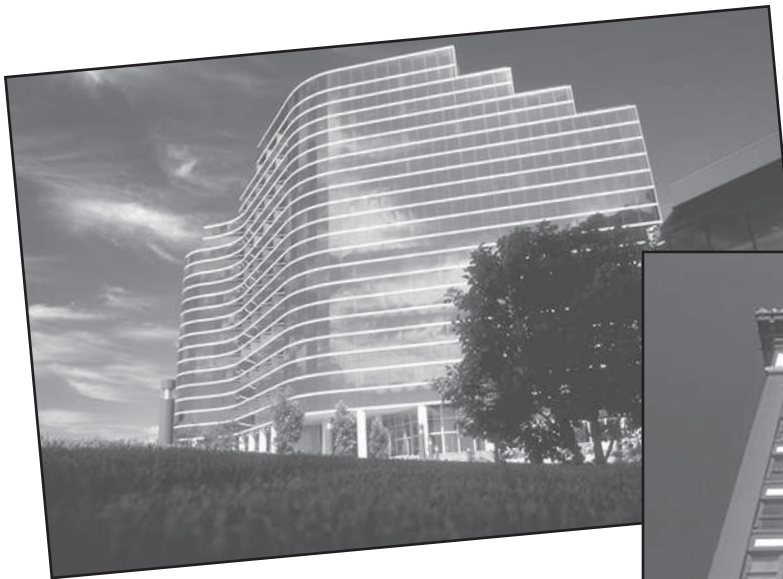


International Property Management

International property managers may follow the example of international construction companies and create internet sites to solicit and receive bids for various supplies, materials, and services. A group of leading U.K. construction companies has recently announced the creation of a web site for supplies and materials procurement. The property managers may follow suit. If the property management operation falls within an international real estate company, the web site of the overall company may accommodate the needs of the property management area; supplies, materials, and services needed by the full-service real estate company may be acquired at least partially through the application of the existing and well-known web site.

 *Summary and Conclusions*

We are in the midst of an explosive development of e-property commerce on an international scale. Many real estate web sites are entering the international market every day. The competitive impacts are tremendous. Some of the new dot-com companies are succeeding; many are not. The necessary marketing expenditures are unexpectedly high. The many needed services are spawning many web hosting and web development firms that international real estate companies may employ. Advice can be sought from a number of specialized consultants and research firms. Great changes are coming in international real estate that affect marketing, finance, valuation, management, property registration, and other areas of the international business.



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About the Author

The manuscript, “The Impact on e-Commerce on International Real Estate” is based on many business-research trips in recent years. Information from leading real estate companies, financial institutions, and trading companies as well as many government agencies related to international trade and real estate have provided the basis for this manuscript and other major publications. The book, JAPAN REAL ESTATE INVESTMENT, will be distributed by Quorum Books of Westport, Connecticut in February, 2001. The book, INVESTING IN JAPANESE REAL ESTATE, was published in 1987 by Quorum Books. JAPANESE SHOPPING CENTERS: FINANCIAL AND INVESTMENT FEATURES, to which Mr. Ikunoshin Yoshida also contributed, was published by the International Real Estate Institute in 1985. The author’s book, SHOPPING CENTER DEVELOPMENT AND INVESTMENT, was published in the Japanese language by the major Japanese publishing house, Toyo Keizai Shimpō Sha. A major Tokyo-based bank sponsored the use of the book by the Japanese real estate community in the early stage of the Japanese shopping center development era. The International Real Estate Institute has also published Dr. Hines’ MOROCCAN REAL ESTATE: NORTH AFRICAN PROPERTY, BRAZILIAN REAL ESTATE, AN OVERVIEW OF GLOBAL REAL ESTATE FINANCE and INTERNATIONAL INCOME PROPERTY INVESTMENT.

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