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Finding the right commercial real estate partner for foreign investors

Article By [SKIP WHITNEY \(/EN/PROFILE/SKIP-WHITNEY\)](/EN/PROFILE/SKIP-WHITNEY)  on May 19, 2017



Finding the right commercial real estate partner for foreign investors

How foreign investors can benefit from teaming up with a partner who knows the local lay of the land.

By Skip Whitney

Since worldwide real estate is a local business, not only does the culture of the country but the location and its people play an important role when finding the right commercial real estate partner. Business and Investment in real estate can not be conducted in San Francisco, New York or Los Angeles the same way it is done in Beijing or Shanghai.

Unlike China, where the local government has the final say in development and investment, real estate in the U.S. is complex with many challenges. It is not unheard of for projects to take up to ten years to get approved and even after approvals lawsuits can be brought forward and cause further delays.

To make the process smoother, the investor could hire a contractor to build the project. In some instances, the Chinese investor has tried to build the project on their own without understanding the perils of the local market with labor unions and subcontractors only to find they are unable to complete the project on time or within the budget.

Also, if a Chinese investor has not followed through in their commitments to purchase a property, it could cause a reluctance by the U.S. real estate executives to do business with the investor. Therefore, even if a Chinese investor bids on the property at a higher price than a local investor, the Chinese investor might not get the deal since the seller has more familiarity with the local buyer and wants certainty to close the sale.

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Based on these experiences, many Chinese investors have learned ways to advance on the American market. One way is to set up a satellite office from the Chinese headquarters or to find a trusted partner in the U.S. Given the local nature of real estate, it is recommended to identify a local partner who has an established business platform and a proven track record in the geographic area. The partner can be in any sector such as residential, senior housing , commercial or retail.

As an example, if the interest is in residential development an investor can choose a developer who has the knowledge and expertise in the geographic area where he wants to invest. American real estate developers traditionally seek outside joint venture equity partners for their developments, which is not typical in China.

A foreign investor could benefit from a partner who knows the local lay of the land and how to find good real estate development opportunities. These partnerships also allow for off-market transactions that a non local investor would not be able to participate in.

Once a partner and project is found, a relationship can be established to develop a joint venture for the development of the property. Traditionally a joint venture structure would be put in place where the role of the local partner would be to handle the day-to-day operations, dealing with local authorities, hiring the general contractor to build the project and helping to arrange the financing for construction.

In this example, a joint venture would be set up where the local partner invests a set amount in the partnership as a general partner and the Chinese investor contributes a set amount as a limited partner. The key to set up the venture is to find a trusted partner to align with. It's also important to find someone who has experience in doing transactions successfully with Chinese investors. Once a partner is found, it's vital to build a relationship and have upfront communication to build a balanced partnership.

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ABOUT THE AUTHOR



Skip Whitney

Asset Manager

Skip Whitney is executive vice president and partner at Kidder Mathews, an independent commercial real estate firm on the West Coast. Whitney specializes in advising clients from China, Hong Kong and Southeast Asia on commercial and investment properties on America's West Coast. He is a leader of Kidder Mathews China Services, a group that helps Chinese companies looking to invest in the United States and vice versa. Whitney serves on the board of directors of the Bay Area Council, and co-founded the Bay Area Council's China Initiative.

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