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Globalization of Real Estate Presents Reporting Challenges

By Dick Raman



With the rapid globalization of commercial real estate and the emergence of growing worldwide real estate investment funds, come financial standardization, compliance and reporting challenges. Investment funds and firms must streamline their global financial information sharing and reporting process not only to comply with governmental financial reporting requirements, but also to access the information in a timely fashion to make the right investment decisions.

Before we talk about the technology platforms that enable us to streamline financial reporting processes, eliminate paper and provide a secure, reliable messaging infrastructure via the Internet, let's have a quick look at the globalization of commercial real estate. Traditionally, real estate has been a very local industry in nature. Remember the key mantra of real estate: location, location, location. Location still is the key component of any

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real estate investment strategy, but the location no longer is confined to a region or a country. It can now be anywhere in the world. Savvy investors are scouting real estate investment opportunities everywhere, from Dubai, Shanghai and Mumbai to London, Tokyo, Mexico City and other booming cities and towns worldwide. They're betting that global real estate is a great hedge against inflation. In recent months, we have seen a huge surge in global investing.

After nearly 35 years of investing in U.S. real estate, Orlando, Fla.-based CNL Financial Group recently launched its first global real estate investment offering: CNL Global Real Estate Fund, which will focus on real estate-related companies that own institutional-grade investments in North America, Europe and Asia Pacific.

Chicago-based Jones Lang LaSalle, one of the world's largest real estate firms, is planning to invest about \$1 billion in India's real estate, according to recent news reports. More and more real estate companies are looking at investment opportunities overseas.

According to a report released earlier this year by Jones Lang LaSalle, global real estate investment rose to \$682 billion in the last year, a 38 percent surge over 2005, and nearly double 2003 volumes. Globalization of the asset class continued relentlessly, as 42 percent of investment value now involves a cross-border transaction, up from 34 percent in 2005. The

report added that a new annual record for the asset class already has been set, as investors posted an additional \$218 billion in 2006 to the total transaction volume with residential and entity-level deals accounted. This addition has brought the total aggregate global real estate investment volume to \$900 billion—the strongest-ever performance by global real estate markets.

Such phenomenal growth, which is expected to continue in the years ahead, has brought forth new challenges. Issues that arise range from keeping track of business and financial information, to meeting financial reporting compliance with local and home government reporting requirements, as well as meeting global accounting and financing standards. Some countries in Asia and Europe have already started to require filing of financial reports electronically. In order to do global business, companies must be global-ready.

As companies do business in multiple countries, they must have a uniform reporting system that meets all legal and accounting standards in the countries in which they operate. Most processes for financial reporting are inefficient and expensive, primarily because they remain paper-driven. It's a problem that plagued supply-chain management for many years, and the similarities are very evident. Fortunately, we have learned the lessons from supply-chain management and are applying them to streamline financial reporting. While meeting global standards, the multi-enterprise, interoperable systems offer an excellent financial reporting solution and

facilitate optimal sharing of financial information. Here are some advantages in using the new technologies that address these issues:

- Automate the handling of Extensible Business Reporting Language (commonly known as XBRL) reports via the Internet, from preparation to transmission to processing;

- Simplify data collection from different accounting systems and ensure the accuracy of management reports, financial statements, and regulatory filings;

- Eliminate costly data errors and manual entry while optimizing financial data for investment analysis and re-use;

- Ensure compliance with critical reporting requirements and corporate governance, including Sarbanes Oxley, International Financial Reporting Standards and Generally Accepted Accounting Principles, and;

- Follow the principles for "interactive data" as outlined by the U.S. Securities and Exchange Commission.

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Given the burgeoning global economy, technologies such as XBRL are becoming increasingly important. XBRL has become the worldwide standard for the electronic exchange of financial information. In the future, it will be the dominant mechanism by which companies produce and distribute financial reports and statements. It's a must for global real estate investment firms. The implementation of a uniform system is necessary to simplify global trade and keep pace with the relaxing trade barriers that have come to define business in the 21st century. ■