Institutional convergence in real estate markets? A comparative study of transaction costs and processes.

Introduction

Globally it is estimated that transactions involving development land sales account for a large proportion of market activity in commercial real estate markets and generate substantial fee income for real estate brokers.[1] In this context, there has been growing interest in comparative transaction processes and the operation of brokerage markets, but there has been little comparative investigation of such processes in an academic context. Focussing on transaction processes in commercial real estate markets, this paper is situated in two areas of growing interest - the conceptualisation of commercial real estate markets as bundles of social norms and conventions and the nature of spatial disparities between markets in a period of international integration. This paper focuses on spatial variations in transaction processes and costs across a range of commercial real estate markets ranging from emerging to developed.

Drawing upon a survey of market participants and on secondary data sources, cross-country variations in methods of sale, brokerage arrangements and transaction times and costs are investigated across 26 office markets at varying stages of maturity. Two theoretical frameworks are used to examine the variation in commercial real estate transaction structures. First, new institutional economics conceptualises exchange processes as products of place and path dependent institutions, generating a range

[1] For instance, Lizieri and Pain (2014) report data from Real Capital Analytics who record transactions with a value of US$2.8 trillion in the period 2007-2010) of which 27% were land transactions.

of possibilities for the organisation of markets. Second, markets are also analysed as the results of the social and technical agency taken up by various actors. In the context of global integration, markets are conceptualised as continually changing forms with varied ‘market devices’ framing them. The paper provides insights into the persistence of local institutional structures in increasingly globalised real estate investment markets.

Background and Context

In the last two decades, there has been a notable internationalisation of commercial real estate investment markets. Global market integration has been associated with increased cross-border real estate capital flows, the emergence of globalised real estate investment organisations and their key professional services providers, as well as a degree of regulatory and institutional convergence. Global financial centres, in particular, are dominated by a network of institutional investment organisations who compete, cooperate, and/or cross-invest with each other. Many have global operational platforms to execute cross-border investment strategies. They mainly consist of large-scale pension funds, insurance companies, investment banks and real estate service providers who increasingly offer fund management services to external clients. Other major real estate investors include listed real estate companies/trusts, sovereign wealth and buffer funds, specialist open and closed end real estate funds, private equity groups, endowment funds, family trusts and high net worth individuals (see Lizieri, 2009, and Baum and Hartzell, 2012).

The networks of third party services (accountancy, legal and real estate services providers) that support cross-border real estate investment have also progressively globalised in this period (see De Magalhães, 2001, for early analysis of this shift). Ball (2002) stressed that real estate investors tended to rely on networks of professional firms who operated at a similar geographical scale (see also D'Arcy, 2009). In the real estate services sector, the 'big three' (JLL, Cushman Wakefield and CBRE) operate across all the major real estate markets. As a result, distinctions between local and foreign investors and service providers have become increasingly blurred. Most cross-border real estate investing organisations employ local professionals in local offices who use familiar firms of global service providers who themselves, in turn, mainly employ local professionals in local offices.

In addition to the emergence of globalised investors and service providers, increased real estate market integration has seen pressure for common standards and practices. The emergence of common global standards in accounting and banking regulation has influenced convergence in institutional guidance on real estate valuation. The RICS, the European Group of Valuers and the International Valuation Standards Committee have largely merged their core regulatory guidance. Network effects and consequent lock-in have, in turn, produced market dominating suppliers of real estate appraisal software (Argus), property management software (Yardi) and benchmarking services (MSCI) that are global in scope. Traditionally, compared to institutional allocations to foreign equities and bonds, real estate allocations have tended to exhibit more home bias (Aussant, 2014). However, there are now "increasing options for investing in real estate internationally, with a series of more robust and bettergoverned investment platforms covering most of the world's real estate markets." (Aussant *et al*, 2014, 3).

Reasons for this observed home country bias are the heterogeneity of real estate assets and the private and decentralised nature of the markets in which they are traded. These attributes lead to frictions that generate higher transaction costs for investors. Transaction costs include search, legal, taxation and administration costs. While the components of transaction costs are not difficult to identify, some elements such as search costs are difficult to quantify. Nonetheless, indirect costs connected with obtaining information and searching for assets are potentially substantial, particularly for locations that are informationally opaque. Brokerage services and transaction procedures are important components of the real estate transaction cost structure, influencing both monetary and non-monetary costs, with direct implications for liquidity. However, the existing literature on comparative real estate market structures is limited. Benjamin *et al*. (2009) noted that:

> "Internationally, real estate is bought and sold under a variety of brokerage arrangements, yet no comprehensive comparison of the differing structures has been undertaken. This represents a significant challenge for future research." (Benjamin *et al*., 2009, 23)

The need for and the role of an intermediary in real estate transactions is driven by three intrinsic features of real estate markets: heterogeneity, information asymmetry and spatial fixity. These features are common to all real estate markets with the extent and importance of heterogeneity and information asymmetry varying. Heterogeneity refers to variety in asset quality and attributes, financial conditions, and the types and preferences of buyers and sellers. It is a significant and pervasive characteristic that leads to gaps in the information available to different stakeholders in a transaction. Buyers and sellers do not share the same quality and quantity of information, resulting in information asymmetries that have direct implications for the bargaining power of each side. Furthermore, spatial fixity means real estate transactions are inherently local and, consequently, local market information plays a vital role.

These issues limit the ability of a buyer and seller to carry out a real estate transaction without information intermediaries such as brokers. In fact, brokers are integral to the trading of commercial real estate to such an extent that it can be extremely difficult to trade assets without using them (McAllister *et al*., 2008). They are crucial to the search and matching services for buyers and sellers and they provide advice and information to most investment organisations to support asset evaluation, price negotiation and transaction management. However, in an international context, little is known about how models and costs of brokerage vary between markets and whether any variations reflect regional preferences or stages of economic development.

Fee structures for residential brokerage has been an active area for research. A key factor behind identified rigidity in fee structures and commission rates could be the presence of implicit entry barriers in the market. While there might be few explicit barriers to entry in most markets (such as licensee examination, cost of licenses or memberships to industry bodies), implicit requirements of private information and a need for well-established networks of local contacts can severely limit the ease of market entry. Delcoure and Miller (2002) examined variations in residential brokerage fees across 30 international markets. In the US, they noted persistence in high levels of fees compared to other mature residential real estate markets and speculated that their "abnormal stability" reflected a combination of variations in liability risk, regulation, use of auctions, range of services provided, imitative pricing and a degree of path dependency. They model brokerage fees as a function of GDP per capita, corruption levels, brokerage model (dual or single agent) and sales per broker. With the US as a major outlier, they found that lower percentage fee rates exist in developed compared to emerging markets and they argue that such markets are likely to be more efficient and transparent.

With or without intermediaries, acquiring and disposing of real estate assets is more costly and takes much longer than for exchange-traded assets such as shares and bonds. Investors in real estate are also exposed to far higher levels of uncertainty in the timing and level of sale receipts/payments. Transaction times are protracted owing to the need to market assets to potential buyers, reach price agreement and conduct detailed evaluation of complex, unique assets, as well as execute the legal formalities for exchange of ownership. Methods of sale and transaction execution procedures vary substantially between markets and, in some countries, the state imposes set procedures that can take months. Previous research indicates that transaction times within markets can vary depending on buyer/seller motivation, market conditions and asset complexity. However, little is known about international variations in the time required to transact commercial real estate assets. Some work has been conducted for UK and US real estate (see Devaney and Scofield, 2015), but, otherwise, empirical evidence on time to transact is extremely limited.

Outside traditional neo-classical perspectives of transaction costs, there has been a body of work by Louis Halbert with others focussing on the role of real estate brokers in facilitating and shaping the 'landing' of global capital in local real estate markets (see also Searle. 2014). As "anchoring agents", it is argued that brokers design and diffuse the indicators, representations and narratives necessary for investment decisions (Halbert and Rouanet, 2014). Emphasis is put on the social capital generated by these information intermediaries' professional, personal and community networks which, in turn, reduces information-related transaction costs for buyers and sellers. Without explicitly mentioning transaction costs, Weber (2016,1) places brokers within a broader network of actors that that "…move capital through the built environment, articulating arguments for its free passage..."

This paper seeks to address the lack of comparative research on commercial real estate transaction processes and costs. However, before discussing the empirical work in detail, some theoretical frameworks are presented in the next section in order to understand better the context in which market institutions emerge and become embedded.

Theoretical Frameworks for Comparative Analysis

Institutional Perspectives

There is an established body of literature that has employed new institutional economics to explore the operation of real estate markets in emerging and developed countries (e.g. Keogh and D'Arcy, 1999; Buitelaar, 2004; Sajor, 2005; Mooya and Cloete, 2007). Institutions are defined as "the rules of the game in a society or, more formally…the humanly devised constraints that shape human interaction" (North, 1990, 3). New institutional economics conceptualises markets as bundles of social norms and conventions, established exchange relationships and information networks involving sometimes complex sets of formal and informal rules (Hodgson, 2002). So, according to Vanberg (1986, 75):

> "What we call a market is always a system of social interaction characterized by a specific institutional framework, that is, by a set of rules defining certain restrictions on the behavior of market participants"

In contrast to ahistorical neo-classical models, history is central to new institutional economics with emphasis on concepts such as path dependency and habit persistence. Essentially, local market outcomes are conceived as contingent upon a combination of historic chance and deliberate agency. A local market outcome can emerge from the range of different possible outcomes. Feedback effects 'lock in' the particular market outcome that has emerged from multiple potential equilibrium states. In turn, each event or outcome in an historical sequence is viewed as both a reaction to prior events or outcomes and a causal factor influencing ensuing events or outcomes. Market outcomes are regarded as dependent on history and context with no market outcome being inevitable (Martin and Sunley, 2012).

Market outcomes are also recognised as being spatially as well as temporally contingent in that they are place as well as path dependent. One stream of the institutional tradition views economic activities to be largely habit-based. Indeed, Hamilton (1932, 84) defined an institution as "a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group..." New institutional economics then puts institutional mediation at the centre of any explanation of observed variations in market outcomes. The institutional approach is contrasted with the convergence thesis which, albeit used in different ways in different contexts, presents global integration as an external determinant which through 'the logic of markets' creates an inevitable process of institutional convergence to a superior, universal model or 'best practice'. The institutional thesis is that a combination of differential exposure to integrating forces, institutional refraction, path dependencies and the power of actors with an interest in differentiation will mitigate this effect (Hall and Soskice, 2001).

In a detailed case study of the evolution of real estate brokerage in Philippines, Sajor (2005) adopts an institutional framework. It is argued that the observed hybridised market structures and practices were contingent upon the relative strength of the state, the presence of higher education institutions providing epistemic authority and the embedded 'traditional' procedures for executing transactions. It is concluded that

> "While globalisation implies a heightened entanglement of the global and the local, it is not homogenising nor does it obliterate the significance of localities. Globalisation does not displace the properties of localities, but makes them more salient. Local culture and local networks have their own inertia and dynamics that shape the impact of globalising forces in a particular geographical space, even as the former are in turn affected" (Sajor, 2005, 1326).

Economic Sociology Perspectives

Socio-technical systems theory has evolved as a sociological framework which analyses the functionality of markets through their inherently interconnected relationships and networks, the agency of the various actors at play, and the technological systems through which they operate and practice diverse roles. Compared with the institutional perspective, the adoption of emergent approaches from the field of economic sociology in assessing real estate markets is less established. However, burgeoning research in economic sociology, specifically adopting socio-technical analysis, is appearing in the built environment discipline, from various perspectives including construction sector networks (see Schweber and Harty, 2010), housing (see Lovell and Smith, 2010), the theorisation of BRE environmental assessment (see Spinks, 2015) and the financialisation of real estate (see Rydin, 2016).

From an economic sociological standpoint, markets can be understood as regimes which inhabit

> ‘a world very much of their own making, organisationally, technologically and on the level of agency and action…Complete with strong insider-outsider distinctions, membership criteria, and interiorised forms of monitoring and regulation’ (Knorr-Cetina, 2012,122-124).

Such markets reflect the complex interplay of broad influences (including culture, regulation, institutional behaviour and politics) both internal and external to their particular industry across a spatial spectrum from the local to the global. Preda (2006) argues that the interplay of diverse actors within the market on a day to day basis forms structures that constitute and reconstitute markets through standardisation of practices, repetition of actions, routine and temporality. Such markets are “not natural phenomena, but have to be actively created and maintained” through the interaction of these diverse influences (Rydin, 2016, 7). Therefore, within markets, processes and regimes vary across industries, time and space, creating particular structures through which practices operate and evolve. The standardised structures in terms of real estate transaction processes and costs that are created have specific features so that those operating within markets have the ability to alter and transform the structures in place, depending on context and human agency.

From a socio-technical perspective, the impetus for such transformation comes from ‘market devices’ which incorporate a material, as well as human element into these structures (Muniesa *et al*, 2007). Through these devices, such as regulations, software and technology, professional guidance, market intervention comes from both the material and discursive agents which continually create and recreate market structures, linking human agency with the material reality of transacting real estate. Within these structures there are relations of power and autonomy at play, and although market devices can be mutually constitutive and self-reinforcing, there remains potential for conflict, competition and market asymmetries (Callon and Muniesa, 2003). Therefore, in addition to human agency, the various technologies operating within specific markets, and their continued evolution, have a direct agential effect on the structures operating within the markets themselves. Such market devices are likely to be more established and embedded in mature markets compared to emerging real estate markets.

Relationships between market actors within particular industries and the communication of ideas can be linked further to the idea of communities:

> "The ability of ideas to gain purchase within the world depends upon the effectiveness of the socio-technical networks within which they are produced, with whom the ideas are associated and how skilfully the proponents of these ideas are able to enrol allies and supporters to ensure that they circulate more widely, beyond their immediate epistemic communities" (Lee *et al*., 2008,1112).

It would imply that, within markets, the ideas which emerge as central to their function consistently rely on their effective communication and widespread adoption as implicit processes of practice. Haas (1992, 3) viewed the epistemic community as central to communication and adoption defining them as "a network of professionals with recognised expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain". Therefore, within the sociological form of markets constructed by devices, expertise and knowledge provide normative practices through which professional processes can be concluded.

Rydin (2016) provides the first analysis of commercial real estate investment as a socio-technical system. The discussion reflects on how real estate 'value' is ascribed, presented and constructed for market exchange within a socio-technical framework. The research specifically considered sustainability and the dichotomy of prime/non-prime assets. For the object for exchange (i.e. the real estate asset) to successfully transact in the market, there must also be “minimal agreement on the nature and limits of property rights and how they can change hands, and the existence of systems for surveillance and enforcement of exchanges” (Rydin, 2016: 8). Within the transfer of socio-material ownership, various market devices are adopted and enforced.

Geels (2004: 899) outlined an approach which combines economic, sociological and institutional perspectives proposing a “conceptual framework where systems, actors and institutions/rules are seen as three interrelated dimensions”. Geels frames socio-technical systems as determining and being determined by institutional structures (rules and regulations). He explicitly introduces actors and social groups as human agents that shape and, in turn, are shaped by these institutions and socio-technical systems. These institutional structures and systems are themselves the outcome of preceding interactions. Socio-technical systems are then sustained and altered by actors while providing the context for and constraints to their actions. Local practices emerge from the interaction of actors and social groups, socio-technical and institutional structures that are formed and, if necessary, reformed. Institutions as sets of cognitive, normative, regulative rules provide stability by guiding perceptions and actors. Variations in the ways that markets are organised, or in the local expression of the socio-technical system that is a market, are then the result of dynamic, often unplanned, interactions between the systems, local institutions and social relations.

In the context of increasing global integration of commercial real estate investment markets, this research focuses specifically on variations in transaction processes and costs. New institutional economics and socio-technical systems provide useful overlapping frameworks for understanding how local market structures can emerge, evolve and embed themselves. Methods of sale, brokerage models, transaction costs and time-to-transact are key components of buying and selling real estate assets and constitute how exchange is organised. Whilst there have been a number of local studies of the operation of commercial real estate markets, there is little documented knowledge on the extent and nature of variation across such markets. Therefore, the approach to and results from empirical research on transaction times, processes and costs across 26 international office markets are now presented.

Research Design and Methods

This research sought to investigate transaction procedures and costs in prime office markets because these play a core role in cross-border investment in both mature and emerging markets. A qualitative approach was adopted where market participants completed a questionnaire which was informed by a broad range of secondary data sources to examine cross-country variations in transaction processes across twenty-six national office markets at varying stages of development.[2] Real estate investment professionals in a sample of 26 countries were contacted and asked to complete the questionnaire on typical transaction processes and costs in the office markets where they operated. Countries were chosen so a range of transparency and maturity levels, as well as geographical regions, were represented. The JLL Global Real Estate Transparency Index (GRETI) was used to help with the selection of markets (see JLL, 2014). Countries from each tier of the transparency index ('high', 'transparent', 'semi-transparent', 'low' and 'opaque' rankings) were included in the targeted sample. In

[2] These included market reports produced by major real estate advisory and law firms, as well as data from the JLL GRETI Index and World Bank's 'Ease of Doing Business' dataset. Judgements about transparency in the JLL survey is based on assessment of a wide range of market practices and indicators connected with commercial real estate investment and occupation

total, 61 responses were received across all regions (see Exhibit 1), representing an overall response rate of 11%. In this respect, generalisations about particular markets are not constructed through this work, but rather signify particular experiences of transaction processes across global markets.

Sampling was targeted at real estate professionals involved in transactions. The respondents included brokers and investment advisors. By targeting potential respondents in relevant roles, the distribution process (via an email invitation to participate) was devised to maximise completion of the questionnaire by appropriate professionals, thus minimising potentially irrelevant or poorly informed responses which may have skewed the data. Sampling was also targeted towards professionals working for globally recognisable companies or their affiliates. The majority of contacts were from leading real estate service providers (JLL, CBRE, Cushman and Wakefield, Knight Frank) owing to their recognisable presence and accessibility. Nonetheless, it was harder to identify contacts in some of the emerging countries owing to their less established real estate investment markets. However, the sample consisted of broadly equal proportions of developed and emerging markets[3].

The questionnaire was constructed on an online platform and distributed via email throughout August and September 2015. It consisted of four themed sections relating to transaction processes and costs, specifically:

1. Timing and nature of the transaction process (eight questions);

[3] There are a number of classifications of developed and emerging markets. We adopt here the MSCI categories that propose a threefold classification of developed, emerging and frontier markets.

2. The seller’s broker – services, fees and role (five questions);
3. The buyer’s broker – services, fees and roles (five questions);
4. Professional background of respondents (four questions).

The questionnaire design predominantly adopted closed-ended tick box responses incorporating pre-defined statements (with both single and multiple response options). Therefore, it collected unordered nominal data through the tick-box questions, as well as further comments offered by respondents. From the four sections, responses were required to every question in sections 1-3, but questions in section four were answered voluntarily. The use of language in the questionnaire was carefully considered, owing to the international focus, and it utilised internationally recognised real estate market terminology. The questions specifically considered ‘prime high-quality investment-grade office buildings’ to ensure that respondents were thinking of similar (if not directly comparable) types of property when completing the questions. Although there will be a varied spectrum of understanding relating to this definition (what constitutes prime in the London market, is not directly comparable to prime space in Mumbai or Lagos), it was adopted to enable respondents to picture a specific type of asset within a particular country.

Exhibit 1: Sample details: Responses & JLL GRETI Rankings

Country	Region[1]	Cities	GRETI Transparency Level[2]	Total no. responses
Australia*	Asia Pac	Adelaide, Melbourne, Sydney	HT	4
Brazil**	Americas	Rio de Janeiro, Sao Paulo	T	3
Bulgaria***	Europe	Sofia	LT	1
China**	Asia Pac	Beijing	ST	1
France*	Europe	Paris	HT	2
Germany*	Europe	Berlin, Frankfurt	T	2
Ghana***	SS Africa	Accra	O	1
Hong Kong*	Asia Pac	Hong Kong	T	2
India**	Asia Pac	Hyderabad, Mumbai	ST	3
Japan*	Asia Pac	Tokyo	T	2
Kuwait***	MENA	Kuwait	LT	1
Mexico**	Americas	Mexico City	ST	2
Netherlands*	Europe	Amsterdam	HT	3
Nigeria***	SS Africa	Lagos	O	1
Panama**	Americas	Panama City	LT	2
Poland**	Europe	Warsaw	T	2
Romania***	Europe	Bucharest	ST	1
Russia**	Europe	Moscow	ST	1
Singapore*	Asia Pac	Singapore	T	2
South Africa**	SS Africa	Durban, Johannesburg	T	2
South Korea**	Asia Pac	Seoul	ST	2
Spain*	Europe	Barcelona, Madrid	T	6
Sweden*	Europe	Gothenburg, Stockholm	T	3

United Arab Emirates (UAE)**	MENA	Abu Dhabi, Dubai	ST	3
United Kingdom (UK)*	Europe	Edinburgh, London, Regions	HT	6
United States of America (USA)*	Americas	Chicago, New York	HT	3
All Countries				**61**

[1] Asia Pac: Asia Pacific, SS Africa: Sub-Saharan Africa, MENA: Middle East & North Africa.

[2] * = Developed. ** = Emerging. *** = Frontier.

[3] HT: Highly transparent, T: Transparent, ST: Semi-transparent, LT: Low transparency, O: Opaque.

Results and Findings

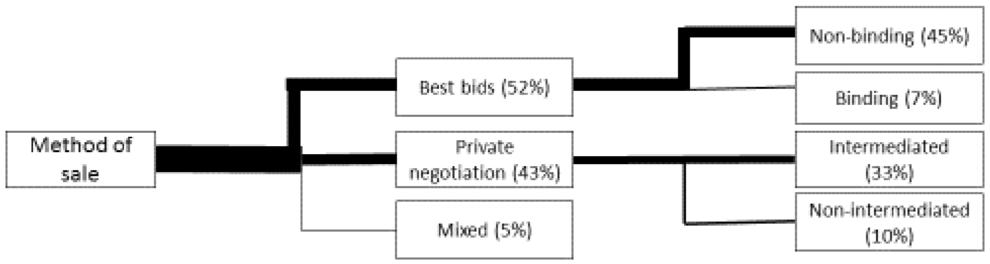
The principal findings from the questionnaire related to transaction processes and to brokerage models, services and fees. Beginning with method of sale, most countries appear to have a dominant method for transacting prime, high quality office buildings. Responses were split into two core groups; best bids (52%) and private negotiation (43%). Best bids that are not binding until the completion of due diligence and other legal formalities was the typical method of sale in 27 responses (45% of respondents), making this the most common method overall and the dominant approach in several countries such as the UK, South Korea and Germany.[4] In contrast, best bids that are binding in advance of legal formalities was relatively rare (7%) as a typical method of

[4] Best bids is typically a tendering process where buyers are invited to submit offers at a fixed date/time. An intermediated private negotiated sale occurs when a property is listed for sale with a broker typically at an asking price. Prospective buyers make offers to the broker, who then presents the offers to the seller, who can then decide whether or not to accept.

sale, although it was reported to be common in China, Mexico, Singapore and the Netherlands. However, in the last three cases, a mix of methods is typical. In fact, in 10 out of 26 countries, no dominant method of sale was reported.

Intermediated private negotiation is stated as the most popular transaction method by 20 respondents (33% overall), making it the second most common method overall. Intermediated private negotiation was the dominant approach for Spain, France and India, and it is used in Singapore as well. Private negotiation was recorded as the primary method from 10% of the responses, including Ghana, Kuwait, South Africa and UAE. However, as with best bids, a mixture of approaches is reported as typical in the latter three markets.

Exhibit 2: Typical method of sale across markets



There were no discernible patterns in the method of sale that separated emerging (immature, opaque) and developed (mature, transparent) real estate markets and there does not appear to be an obvious regional pattern either. Whilst the majority of markets had adopted a variation of arm's-length, impersonal, third party mediated exchange, in some Middle Eastern markets, the persistence of traditional, relational exchange models was identified. A respondent in Qatar noted that they could not complete the questionnaire because, typically, properties in Qatar are marketed directly between principals (investors). Transaction processes are often executed without any advice or input from real estate professionals, with decisions made by Majlis councils. In Kuwait, the approach of private negotiation is still primarily adopted with few sellers *'believing in having the added value of a real estate transactions advisor'.* However, it was also reported that perceptions are changing as the market develops and more advice is being sought from real estate service providers. Thus, the roles that real estate professionals play in Middle Eastern countries differed to what would typically be associated with transacting real estate assets in the other markets included in the questionnaire.

The findings indicate that, although there are two clearly dominant methods of sale (non-binding best bids and intermediated private negotiation), the 'logic of markets' has not led to convergence towards a single method of sale. No clear distinction is found between sale methods in mature and emerging markets. In some ways, this indicates that the institutional determinants are creating flexible 'best practice' options for methods of sale in different real estate markets. However, these methods can be interpreted very differently in different local contexts, creating inconsistent market processes and differentiated approaches. 'Standardised' models are implemented and expressed in differing ways at local level but the human agency in how these models are implemented varies between markets and market devices. In line with Sajor (2005), global forces are being shaped by local dynamics.

In terms of how brokers were used in transactions, the main finding is a bifurcated pattern. In the majority of countries (11 out of 26 markets), the dominant model of brokerage adopted is that only one broker is involved, representing the seller only. As can be seen in Exhibit 2, there is no particular pattern in brokerage models, with various models applied across the developed and emerging real estate markets in the sample. In addition, there does not appear to be a link between method of sale and adopted brokerage model.

Exhibit 3: Distribution of dominant brokerage models across sample

Brokerage Model	Countries
1 broker: represents seller only	Australia*, Bulgaria***, Mexico**, Nigeria***, Russia**, Singapore*, South Africa**, South Korea**, Kuwait***, Sweden*, USA*
2 brokers: 1 buyer / 1 seller	Netherlands*, Poland**, Romania***, Spain*, UK*
1 broker: represents both	China**, Hong Kong*
No broker	UAE**, Ghana***
Mix of models reported by respondents	Brazil**, France*, Germany*, India**, Japan*, Panama**

[1] * = Developed. ** = Emerging. *** = Frontier.

The key distinction between countries was between dual broker and single broker models. Responses indicated that it was almost universal for a seller to appoint a broker. A two broker model, where buyers and sellers used separate brokers was less common. When selling prime, high-quality office properties, 82% of respondents stated that sellers ‘always’ or ‘often’ appointed a broker. The remaining responses answered ‘sometimes’, with no respondents choosing the ‘rarely’ or ‘never’ options. Predominantly, sellers appointed a broker ‘often’, with this response accounting for 59% of responses. For most countries, responses were all either ‘always’ or ‘often’, but not exclusively one or the other. The respondents for UAE all agreed on ‘sometimes’ and was the only country to be unambiguous in relation to ‘sometimes’ as a response.

For buyer’s brokers, the situation was more ambiguous. Only one respondent stated that buyers ‘always’ appointed a broker. Respondents for some countries had different perceptions about the use of brokers by buyers in that country. The most extreme example was India where one response stated ‘always’ while the others stated ‘sometimes’ and ‘rarely’. There was a general consensus between respondents in several other markets including the UK and Netherlands, where buyers appointed brokers ‘often’. No comments were made in relation to this question giving reasons why buy-side brokers were not typically appointed. Based on the responses, only China and Hong Kong adopt the model where one broker represents both parties. The lack of use of this model is unsurprising given issues around potential conflicts of interest. Indeed, it is legally prohibited in some jurisdictions.

Despite the global scale of real estate services firms such as JLL, CBRE and Cushman Wakefield, the findings above indicate that, in some of the key components of real estate transactions, a range of sale methods and brokerage models continue to exist. Global integration of the institutional investment sector and real estate professional services providers has not led to a convergence towards a single, ‘best practice’ model for brokerage or sale method. Whilst the absence of a longitudinal perspective in this study prevents an analysis of how such transaction structures emerged in each local market, the results are consistent with paths being created, in *some* markets, by historical accident, lock-in and cumulative and self-reinforcing market dominance. However, it is also clear that in other markets a range of transaction models can co-exist. It is not preordained that network effects lead to the dominance of a single method of sale or brokerage model in any local market.

In contrast, there were near universal practices in some aspects of the organisation of real estate markets. In terms of services provided by a sell-side broker, the ‘bundle’ of services offered by sell-side brokers was relatively standardised. Approximately 90% of respondents indicated that brokers typically provided advice on indicative asking price, method of sale, marketing strategy and marketing execution, conducted negotiations with buyers, supported due diligence and negotiations concerning the terms of the legal agreement for sale. Given that buy-side brokers where not used in the majority of markets, the findings here are less clear-cut. However, there is substantial commonality in the service offer. These similarities across services are consistent with the convergence to a single ‘best practice’ model. In their role as ‘epistemic communities’, the global real estate service providers, facilitated by regulatory convergence, ICT innovations and ‘shared’ market devices, can transfer and translate knowledge across international boundaries.

Another unambiguous finding in relation to the commonality of some market devices across global markets is the dominance of *ad valorem* commission structures where agents are paid a percentage of the price as a fee when a sale occurs. For sell-side agents, 92% of respondents indicated that commission was typically calculated as a percentage of the price, while only 8% of respondents reported either a fixed cash payment or a combination of fixed cash and percentage or price commission. The dominance of ad valorem commission models was slightly less for buy-side brokers. 62% of respondents indicated that percentage of price commissions were typical, 17% indicated that a combination of a fixed cash commission and a price percentage commission was used and 18% of respondents indicated that a fixed cash commission and incentive approach was used. However, whilst there was little variation in the commission models, there was substantial variation in fee levels.

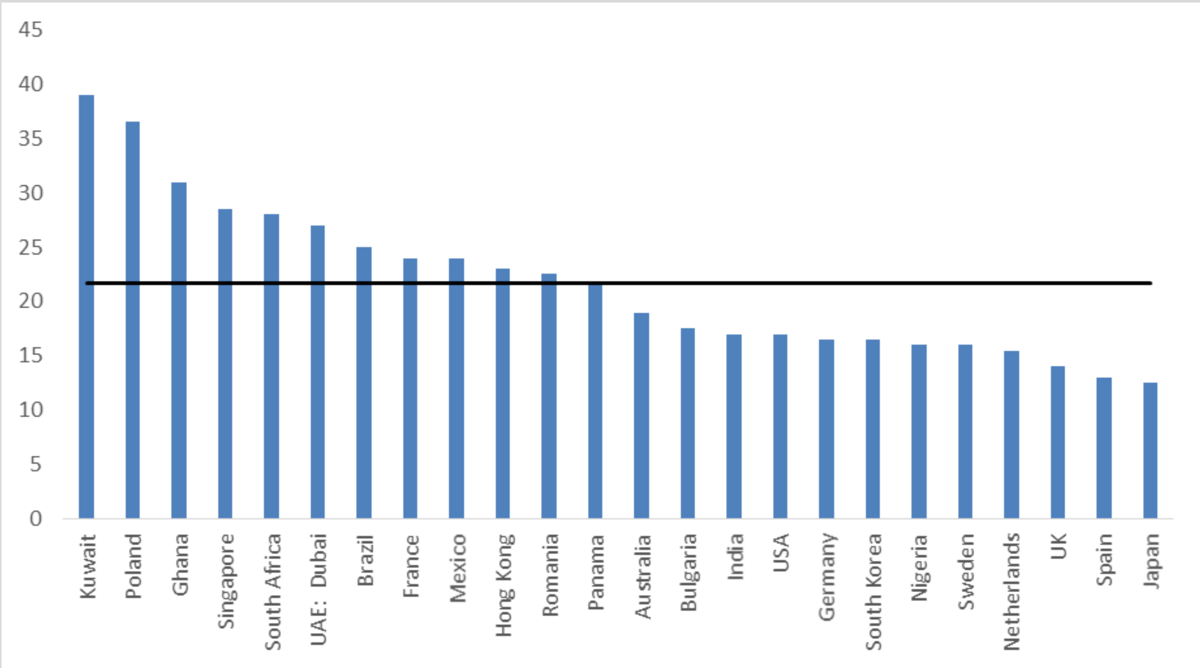
Before discussing the results for commission levels, it is worth bearing in mind some caveats. It can be difficult to identify a typical commission level for any market and they may be tapered in that the percentage applied may be linked to the price agreed. Numerous structures are possible. In the same way, it can be difficult to generalise about the level of transfer tax as various tranches of the price may have different tax rates applicable. This issue, indeed, emerged from the questionnaire. Typically, as the price increases, the percentage commission will drop. In some markets, it is common to offer incentive fees linked to price achieved. In addition, the respondents to the questionnaire were invariably brokers. It is likely that they indicated standard fee quotations rather than fee levels that are typically achieved. In many markets, brokerage instructions (to sell) can be competitively tendered and actual commission levels can be significantly lower than quoted commission levels. In some cases, variations between respondents operating in the same market were substantial. The findings suggest a broad pattern of a near universal (*ad valorem*) model of brokerage commission structure with local variations in the commission levels and other more detailed terms.

The fee percentage was specified 46 times across 23 markets. For the seller's brokerage fee, the lowest percentage indicated was in Poland, where a fee scale of 0.2% – 0.5% of transaction price was indicated. Fees of 4-5% were typically found at the higher end of the sliding scale, in markets such as Spain, Ghana and Mexico. Several markets, including the UK, Sweden, South Korea, France, Australia and China are reported to have average fees for sellers of 1% or less. As a robustness test, we compared the findings with the figures collected on seller's brokerage fees by JLL for their Global Real Estate Transparency Index. Whilst they were broadly consistent, the index's indications for seller's commission rates as a percentage of price were larger for Brazil, Hong Kong, India, Sweden, Poland, UK and UAE than in the findings from this questionnaire.

Exhibit 4 shows the average time to transact for individual countries in our sample. The total average time to transact across all markets has a mean of 22 weeks and a median of 24 weeks, with a standard deviation of five weeks. The shortest average times to transact were in the Japanese (12.5 weeks), Spanish (13 weeks) and UK (14 weeks) markets. It is worth noting that both Spain and the UK have the largest number of respondents (6) and each country has one response that indicates a substantially longer overall transaction period than the rest, raising the average time to transact. If these two 'outlier; responses are disregarded, overall average times to transact fall to nine weeks for Spain and 8.5 weeks for the UK. In the case of the UK, the reported time to transact from this questionnaire is shorter than that based on actual evidence of transactions as reported by Devaney and Scofield (2015). In the latter study, the median time to transact for sellers was found to be 19 weeks. This difference in results echoes the findings of Scofield (2013) who noted that time estimates from interview based research with investment principals tended to understate the actual length of time taken to buy and sell commercial real estate in the UK market.

The five countries in the sample that are ranked in the top 10 most transparent real estate markets globally (JLL, 2014) – the UK (1), the USA (2), Australia (3), France (5) and the Netherlands (7) – all have relatively short times to transact. With the exception of France at 24 weeks, the times are all are below the overall mean and median figures, being between 14 and 19 weeks. On the other hand, there is no clear pattern in time to transact in emerging and frontier real estate markets, with Nigeria at 16 weeks, India at 17, Brazil at 25 and Ghana at 31 weeks. Kuwait had the longest time-to-transact at 39 weeks. It was noted that the speed of the processes in some cases were inherently dependent upon financing (Panama) and legalities (Poland), such as anti-monopoly clearance, tax rules and public registration. There is variability in the swiftness of the legal procedures across markets, which can lead to longer transaction periods being experienced. There was also some evidence indicating that emerging and frontier markets had longer marketing periods compared to developed markets. Marketing periods for Romania, UAE and Brazil had estimated marketing periods of 12.5 weeks, 14 weeks and 15 weeks respectively compared Japan at five weeks and six weeks in the UK and Spain.

Exhibit 4: Total average time to transact periods across sample countries (weeks)



Results for Brazil (19-34 weeks) and Sweden (10-26 weeks) are spread broadly and exhibit large deviations either side of the mean. This is due to differences between locations within these countries. In Brazil, two respondents from Sao Paulo stated that total times to transact were 19 and 21 weeks respectively, compared to Rio de Janeiro, where time to transact was 34 weeks. In Sweden, the situation was similar with two responses for Stockholm indicating average total transaction times of 10 and 11 weeks, compared to Gothenburg, where average transaction times were significantly longer, at 26 weeks. Thus, when considering the time to transact, local expression could be key at a sub-national level.

The detailed JLL GRETI information set provided both a check on the qualitative data and additional information on transactions and brokerage. The GRETI data is collected through a mixture of qualitative and quantitative methods, and classified through five weighted sub-indices, including performance measurement (25% weighting), market fundamentals (20%), governance of listed vehicles (10%), regulatory and legal (30%), and transaction process (15%). The latter sub-index was of particular interest for this study, as it includes questions on professional standards in brokerage, bidding processes, quality of pre-sale information and the cost of transactions. JLL provided the research team with access to the individual questions that were used to create the main composite index and the various sub-indices, with response information provided for the sub-index on transaction process only.

For 2014, the markets scoring highest on all three questions included France, the Netherlands and the UK, while the lowest ranked markets were Russia and Nigeria. Although the overall score for transaction process is indicative of general perceptions for that market, in some instances, it can hide significant deviations in scores for individual elements, especially in emerging and frontier markets. The research went on to isolate scores and rankings for the transaction process sub-index from the overall GRETI rankings. The transaction process sub-index is weighted at 15% within the overall index and covers two of the 13 'topics' that JLL evaluate overall, specifically 'occupier services' and 'sales transactions'. The GRETI transparency rankings of each country studied were compiled and ranked specifically in relation to each country's score for the transaction process sub-index to facilitate an assessment of the influence of transaction processes at a more granular and independent level within the overall index. Results from the 2014 GRETI demonstrate that certain countries with relatively strong sub-index scores, such as Panama (41st out of 102) and Ghana (46), scored less well in other indicators, thereby diluting their overall rankings (to 73 and 86 respectively). In contrast, China ranked 66 for transaction processes, but 35 overall, while Russia ranked 72 for transaction processes versus 37 overall. This contrasted with little movement between rankings in the cases of more transparent, developed real estate markets.

Conclusions

In the context of increasingly globalised commercial real estate markets for institutional grade assets, a longstanding gap in knowledge about comparative transaction processes in real estate markets has been identified. The findings of this research provide new insights into the extent of diversity and commonality in transaction processes for commercial real estate markets in terms of brokerage models, fees, services and time to transact. Blending conceptual insights from interconnected perspectives; socio-technical systems, new institutional economics and human agency, real estate transaction processes have been analysed as place and path dependent reflecting regulated, institutionally mediated socio-technical systems which are interpreted at local level through market devices, and reproduced by human actors and social structures.

The empirical findings indicate a nuanced and intricate pattern of market conventions rather than any simple binary distinction between a universal, best practice model and locally contingent models. There is evidence of a small number of best ‘practice’ models which are adapted in most markets. In some markets, a variety of transaction models or elements of each model can comfortably co-exist, in others and more commonly a single model becomes embedded and dominant. In some aspects of transactions, such as service offer and brokerage commission structures, there is near universality in terms of the service bundle and commission model - if not the commission level. Perhaps the former should not be surprising given the dominance of globalised real estate services providers. Overall, local market outcomes seem to reflect local adaptations and modifications of a small number of common models.

There were no clear-cut, consistent distinctions between developed and emerging and/or frontier markets. Manifestly, the standard model of ad valorem fees and service bundles was common to all markets. Similarly, there was no evidence of a relationship between the maturity of the market and the method of sale or brokerage model adopted. However, in terms of transaction timing, transaction processes and procedures tended to take longer in emerging and frontier markets. There was also substantial variation within emerging and frontier markets in terms of transaction efficiency with consequent implications for liquidity risk.

However, in the absence of longitudinal studies, it is difficult to understand the evolutionary dynamic that can explain the processes by which certain market practices have become locally embedded. The lack of clear patterns in the data is consistent with a small range of transaction processes being adopted in different ways in different markets due to a blend of historic chance and subsequent network effects. Future research should involve identification and analysis of socio-technical transitions in commercial real estate markets and the linked processes of transformation which may occur at global, regional, national and local scales and affect organisations, institutions, behaviours and practices.

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