International Investments in Luxury Real Estate:
An Evaluation of International Real Estate Investors and Developers Entering a Cross-Continental Market

by

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ABSTRACT

International investments in luxury real estate can be a complex and challenging endeavor, as investors and developers must navigate a variety of issues, including cultural differences, legal and regulatory frameworks, and market conditions. The goal of this research was to investigate how success can be achieved in a cross-continental market and the role of international investors and developers in evaluating the risks and opportunities presented by the market, as well as building relationships with local partners and experts who can help them navigate the local landscape. The study also considered Dubai and the United States as two major players in the global luxury real estate market, offering a range of opportunities for investors. In Dubai, the market is primarily driven by demand for high-end properties from wealthy individuals looking for a second or vacation home, as well as investors seeking to take advantage of the city's strong rental market. The United States has a more diverse luxury real estate market, with demand coming from a variety of sources. The research was based on interviews with two industry executives from the United States; John Grossman, the Chief Executive Officer of Grossman Company Properties and Scott Lockwood, Regional Vice President of Development, from Cambria Hotels by Choice Hotels International. The findings indicate that their experience in the local market, as well as relying on thorough market research, enables them to understand local trends and conditions. The study also found that local laws and regulations have played a role in shaping the luxury real estate markets, with some countries, states, and cities offering more favorable conditions for investors than others.

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Purpose and motivation of the thesis

This thesis focuses on international investments in luxury real estate, providing an in-depth analysis of the market and identifying key factors that make it attractive to investors. The study covers current trends and property options in the luxury real estate market, as well as the average prices and potential risks and rewards of investing. The research also examines the tax incentives, financing options, and the potential for capital appreciation that make this market appealing to investors. Additionally, the thesis considers potential risks such as overinvestment, market volatility, political and economic instability in the luxury real estate market. The analysis includes a comparison of the potential for capital appreciation and risk, as well as the potential for diversification and long-term returns in international investments in luxury real estate.

Introduction

International investments in luxury real estate have gained popularity in recent years, with investors and developers looking to enter cross-continental markets in search of lucrative opportunities. This trend has been particularly evident in the United States and Dubai, which have both emerged as major players in the global luxury real estate market. The United States has long been a top destination for international real estate investment, with its diverse economy, stable political climate, and strong property rights attracting investors from around the world with Chinese investors being the latest substantial number of investors (Glaeser, et al., 2017). The country is home to a variety of luxury real estate markets, including major cities such as New York, Los Angeles, and Miami, which are known for their iconic skylines, cultural attractions, and affluent residents (Lauermann, 2022; Ahrens, 2015). Dubai, on the other hand, has emerged as a major player in the luxury real estate market in recent years due to its rapidly developing economy, favorable business climate, and strategic location. The city is home to several iconic developments, including the Burj Khalifa, the tallest building in the world, and Palm Jumeirah, an artificial island shaped like a palm tree.

Despite the differences between the United States and Dubai, both markets have attracted a significant number of international real estate investors and developers. These investors and developers have been attracted by the potential for high returns and the opportunity to tap into the growing demand for luxury properties in these markets (Zhang & Tse, 2018). However, entering a cross-continental market also carries its own set of challenges, including cultural differences, language barriers, and regulatory differences.

This report provides insight into the luxury real estate market by evaluating the challenges and opportunities facing international real estate investors and developers as they enter the United States and Dubai luxury real estate markets. It built its findings through relying on primary data sourced through interviews of two company executives, John Grossman, the Chief Executive Officer of Grossman Company Properties, and Scott Lockwood, Regional Vice President of Development, from Cambria Hotels by Choice Hotels International. It also looked at the factors that have made these markets attractive to international investors, as well as the risks and uncertainties that must be considered. Through this analysis, the research provides a comprehensive overview of the current state of the international luxury real estate market and offers insights into the key considerations for investors and developers looking to enter these markets.

What is luxury Commercial Real Estate?

Luxury commercial real estate includes high-end commercial assets such as office buildings, retail centers, residential properties, and hotels or resorts. These residences are distinguished by their prime location, high-quality construction and finishes, and first-class facilities and services. Luxury commercial real estate is sometimes linked with grandeur and exclusivity, and it is frequently sought after by high-end consumers or clients (Manlow & Nobbs, 2013). Luxury commercial real estate may comprise a variety of property types, such as office buildings. The office buildings are often situated in prominent areas and have high-end finishes and facilities such as private balconies, side gyms, and high-speed Internet. Luxury retail malls are often situated in wealthy neighborhoods and provide a choice of high-end retailers and eateries. They may also provide services including parking, concierge service, and closed events. Luxury hotels and resorts are often situated in attractive areas and provide a variety of high-end amenities and services such as spacious guest rooms, fine dining restaurants, and spa and wellness facilities. High-end luxury residential facilities are common in wealthy neighborhoods and include opulent high-end amenities to complement premium exquisite living (Debenedetti, 2021). Large estate houses and homes situated in locations where the median price home may be beyond a particular price threshold, but this will not be on the commercial scale are examples of luxury residential. In general, luxury commercial real estate is seen as a prestige investment and is often sought after by affluent people and corporations.

Who are the target consumers?

The target market for luxury commercial real estate varies based on the property's nature and location. The following are frequent target purchasers for luxury commercial real estate. The first group are upscale commercial firms interested in luxury office buildings and retail centers. Such firms seek prime locations with premium facilities. The second group consists of affluent individuals. For this category, premium hotels and resorts may cater to wealthy vacationers seeking a lavish and exclusive experience. Another category consists of successful investors seeking a prestige investment that may provide income or increase in value may also find luxury commercial real estate appealing. Luxury commercial real estate is often marketed to wealthy people and corporations who can pay the properties' high prices (Debenedetti, 2021).

What factors deem a property luxury?

Location is one of the variables that contribute to a property's luxury status. Luxury commercial buildings are often found in prime locations such as the central business center or wealthy communities. High-quality materials and finishes, such as marble or granite worktops and high-end equipment, are used in the building of luxury commercial premises. Moreover, high-end commercial facilities often include a variety of first-rate amenities and services, such as on-site wellness facilities, concierge services, and valet parking. Brand reputation is also another aspect as well-known trademarks, such as Prestige and exclusivity, may be linked with luxury commercial real estate buildings (Foroudi, et al., 2016). Luxury commercial buildings are often priced higher than comparable assets on the market. Luxury commercial buildings are distinguished by their excellent location, high-quality construction and finishes, and first-rate facilities and services. They are often linked to prestige and exclusivity aimed at high-end clientele or consumers.

What attracts international investors to this specific asset?

We might wonder if there is a reason for foreign investors to desire to participate in a newer and risky market. So, what motivates investors to enter a new international market? Several variables influence investors' decisions to enter a new market, including high returns, diversification, economic stability, political stability, and cultural appeal, among others (Sinha & Sheth, 2018; Aaker & Moorman, 2017). Luxury commercial real estate projects may yield greater returns on investment, especially in places where demand is high, but supply is restricted. In terms of diversification, investing in commercial real estate in a foreign nation may give investors the first application advantage by lowering their portfolio's total risk. In addition, investors may be drawn to nations with a robust and stable economy because they may offer a safe and predictable environment for commercial real estate investment (Salzman & Zwinkels, 2017). Although investors may be drawn to nations with stable political systems, they cannot guarantee investment security and predictability. Investing in commercial real estate in a nation where the currency is predicted to grow in value might bring significant profits for investors. International investors may be drawn to luxury real estate in specific nations because of cultural characteristics such as art, gastronomy, or lifestyle (Montezuma & McGarrigle, 2019).

Thus, international investment in luxury real estate can be a complex and challenging endeavor, particularly for investors and developers entering a cross-continental market for the first time. There are several factors to consider when evaluating potential international real estate investments, these include:

1. **Market conditions:** It's important to thoroughly research the local real estate market to understand factors such as supply and demand, property prices, rental rates, and economic conditions.

The United States real estate market is one of the most prolific in the world due to several key factors. Firstly, the country's large population and high-income earners provide a large pool of potential buyers, fostering strong demand in the market (Garner, 2019). Secondly, the USA has a vibrant economy that makes high-quality investment opportunities available and gives potential buyers the confidence to invest (Giang, 2020). Lastly, the legal framework of the nation's property market is efficient and stable, providing buyers and investors with reassurance (Gamble, 2019). These characteristics, alongside other features, have made the US real estate market particularly attractive to buyers and investors around the world.

The United States real estate market constantly ebbs and flows depending on a number of factors, including supply and demand, property prices, rental rates, and economic conditions. A variety of factors could contribute to a healthy or struggling market, such as population growth or economic stagnation. It is important to be aware of the cyclical nature of the market and to evaluate the current market conditions to accurately assess the potential of any particular market (Ratcliffe, Stubbs & Keeping, 2021). Real estate is a long-term investment, and it is important to make educated decisions that are in line with current market conditions and economic realities.

2. **Legal and regulatory issues**: Each country has its own set of laws and regulations that govern real estate transactions, so it's important to familiarize yourself with these before making any investments. There are several legal and regulatory issues that can arise in the US real estate market, particularly in the luxury real estate segment. These issues can be complex and may require the assistance of legal counsel to navigate (Saiz & Salazar Miranda, 2017). One key legal issue in the real estate market is the use of contracts. In the sale or purchase of real estate, a written contract is often used to memorialize the terms of the transaction. It is important for both buyers and sellers to fully understand the terms of the contract, as well as any contingencies that may be included, such as financing or inspections.

Another legal issue that can arise in the real estate market is the disclosure of defects or issues with the property. In some states, sellers are required to disclose known defects or issues with the property to potential buyers

(Ajax & Strauss, 2018). Failure to disclose such issues can result in legal consequences for the seller. In addition to legal issues, there are also regulatory issues that can impact the real estate market. For example, zoning laws and land use regulations can affect the development and use of real estate properties (Been, Madar & McDonnell, 2014). Environmental regulations can also impact the development and use of real estate, particularly if the property is located in an area with sensitive ecosystems or is subject to environmental hazards. It is important for those involved in the real estate market, particularly in the luxury segment, to be aware of these legal and regulatory issues and to seek appropriate legal counsel when necessary.

3. **Cultural differences:** It's also important to consider cultural differences when investing in international real estate. This may include understanding local customs and business practices, as well as the expectations and preferences of potential buyers or renters.

Investing in international real estate can involve a range of cultural differences that can impact the success of the investment. It is important for investors to be aware of these differences and to consider how they may affect the investment process. One cultural difference that can impact international real estate investment is the role of trust in business transactions (Altinay et al., 2014). In some cultures, trust is an important factor in establishing and maintaining business relationships, while in other cultures, trust may be less of a factor. Understanding the role of trust in the culture where the investment is being made can help investors navigate the investment process and build strong relationships with local partners and stakeholders.

Another cultural difference that can impact international real estate investment is the role of personal relationships in business (Rogers & Koh, 2017). In some cultures, personal relationships and connections may be more important in conducting business than in others. Understanding the importance of personal relationships in the local culture can help investors build strong connections and establish trust with local partners and stakeholders.

Apart from trust and personal relationships, cultural differences can also impact the negotiation process in international real estate investments. Different cultures may have different expectations and approaches to negotiations and understanding these differences can help investors effectively navigate the negotiation process and reach mutually beneficial agreements (Rogers & Koh, 2017). It is thus important for investors to be aware of cultural differences when investing in international real estate and to consider how these differences may impact the investment process.

4. **Financing options:** Financing can be a major challenge when investing in international real estate, particularly if you are unfamiliar with the local banking system. It's important to research financing options and understand the costs and risks associated with each. There are several financing options available for investing in real estate, both domestically and internationally (Tulung, 2017). One of the most common financing options is mortgage. A mortgage is a loan secured by real estate. Investors can take out a mortgage to purchase a property, or they can use a mortgage to refinance an existing property. Mortgages can be obtained through banks, credit unions, and other financial institutions. The second option is private financing.

Private financing refers to funding that is provided by individuals or private companies, rather than traditional financial institutions. Private financing can be a good option for investors who are unable to obtain traditional financing due to credit issues or other factors. Another option is hard money loans. A hard money loan is a short-term loan that is secured by real estate. Hard money loans are typically provided by private investors or companies and are typically used to finance the purchase or renovation of a property.

Lastly, one can also consider crowdfunding. Crowdfunding is a financing method in which investors pool their money to fund a project or investment (Langley & Leyshon, 2017). There are several real estate crowdfunding platforms that allow investors to invest in real estate projects, either domestically or internationally. It is important for investors to carefully consider their financing options and to choose the option that best meets their needs and goals. It may also be helpful to seek the advice of a financial professional or real estate attorney to determine the most appropriate financing option.

5. **Exchange rates**: Fluctuations in exchange rates can have a significant impact on the value of international real estate investments, so it's important to consider this when evaluating potential investments. The exchange rate is the value of one country's currency in relation to another country's currency (Mussa, 2019). When investing in international real estate, the exchange rate can have a significant impact on the profitability of the investment. For example, if an investor from the United States is considering purchasing a property in Canada, the exchange rate between the US dollar and the Canadian dollar will affect the cost of the property in US dollars. If the value of the Canadian dollar increases relative to the US dollar, the property will cost less in US dollars, making it a more attractive investment. On the other hand, if the value of the Canadian dollar decreases relative to the US dollar, the property will cost more in US dollars, potentially making it a less attractive investment.

Exchange rates can also impact the profitability of international real estate investments when it comes to generating income from the property (Luqman Hakim, 2017). If the value of the currency in which the property is denominated increases relative to the investor's home currency, the income generated from the property will be worth more in the investor's home currency, increasing the profitability of the investment. Conversely, if the value of the property's currency decreases relative to the investor's home currency, the income generated from the property will be worth less, potentially decreasing the profitability of the investment. It is therefore important for investors to consider the impact of exchange rates when investing in international real estate and to be aware of how fluctuations in exchange rates can affect the profitability of the investment.

Management skill set and expertise required for a hotel or resort to operate according to standard

To determine what skill set is necessary for a hotel to function at luxury standards, we must first determine what the level of luxury is in the particular market where the operations are taking place. When considering what is required for a facility to run as a luxury product, we must consider all of the features that customers would want in a luxury resort or hotel. The majority of this thinking occurs before the building is constructed. A developer would need to carefully plan out all of the required components in the area to entice tourists to spend their money on this facility. Typically, this would imply having a carefully planned pool area with service facilities and other desired products for customers. The facility's proximity to the shore would also make it a sought-after destination.

-Entry mode of establishment

In this section, we will look at how hotels enter new markets and what it takes for a hotel to build its brand in a new area. Most hotel brands do not have a home firm home country. Instead, they establish themselves in a new country and then change brands during the hotel's existence. The majority of what we see in hotel ownership and management is very subjective to what the environment needs. In this section of the paper, we will look at how hotel brands determine which nation or market to enter next. We will look at the financial risks of a hotel moving to a hotel brand that is establishing itself in a new area. We'll look at how the risk is managed during the investment's tenure in that area. The management business that will run the hotel is another important part of how a hotel chooses to operate in a new region. So assessing how a hotel will choose its management business to run the property.

Foreign Real Estate Investors might enter a new market via a variety of channels. Greenfield Investments, which entails creating a new real estate development from the ground up in a new market, is one of the entrance modalities. Joint venture: this entails collaborating with a local company (Oguji & Owusu, 2021). To launch a new real estate venture in a new market. Mergers and acquisitions include the acquisition of an existing real estate firm or property in a new market. Franchising is entering a new market by securing from a franchisor the right to utilize a well-known brand in our operating model. This strategy is often seen with hotels, where developers may either franchise the property after completion or choose an operator or management firm to handle the facility. Licensing: Entering a new market by purchasing the right to utilize a product or service in a certain geographic location is what licensing entails (Dinu, 2018). A wholly-owned subsidiary is a new firm established in a new market that is entirely owned by a foreign investor. The ideal entrance mechanism for foreign investors will rely on a variety of criteria, including the size and scope of the investment, as well as the amount of risk involved in the investor's resources and skills.

-how developers and investors move into domestic and international expansion for a specific hotel

It is essential to examine the repercussions of entering a new market as a developer or investor, focusing particularly on the effects on valuation measures and risk profiles. But one thing to consider is the hotel chain that builders choose to team up with. One needs to compare the brand to the firm because consumers will place greater trust in the brand's reputation when making decisions about high-end purchases like hotel stays (Foroudi, et al., 2016). Many diverse markets are home to hotels under the same brand name, and each of these markets requires a somewhat different approach to strategy.

There are several steps that developers and investors can take when moving into domestic and international expansion for a specific hotel. One of the considerations is market research. Before entering a new market, it is important to conduct thorough market research to understand the local economy, competition, and regulations. This can include analyzing local demand for hotel rooms, as well as identifying any cultural or linguistic differences that may affect the operation of the hotel (Čirjevskis, 2021). Another consideration is the potential for partnering with local operators. To increase the chances of success in a new market, developers and investors may consider partnering with local hotel operators who have experience and established networks in the region. This can include entering into a franchise agreement, or creating a joint venture with a local partner. Once it's ascertained, a developer needs to secure financing. Financing is an important consideration when entering a new market. Developers and investors may need to secure funding from local banks or investors, or consider alternative financing options such as crowdfunding or private equity. It is also important to adapt to local regulations. Each market has its own set of regulations, and it's important to understand and comply with these regulations when entering a new market. This may include obtaining licenses and permits, and adhering to local zoning and safety codes. To operate successfully in a new market, developers and investors will need to build a strong local team. This may include hiring local managers and staff, and training them to understand the local culture and business practices. The other consideration is marketing and promotion. A strong marketing and promotion strategy is crucial for establishing a presence in a new market (Nikolskaya et al., 2018). This may include targeted advertising, public relations, and creating partnerships with local businesses to promote the hotel. One also needs to remain flexible and ready to adapt. Domestic and international expansion is not always a smooth process, and it is important to be flexible and ready to adapt to any changes and challenges that arise. This may include being open to making adjustments to the hotel's amenities and services to better appeal to the local market, or pivoting to the strategy if initial plans don't work out. It is important to have a clear and realistic business plan, with contingencies plans in place, and a clear exit strategy. It is also crucial to stay abreast of the global political, economic, and health situation as these can have a large effect on the hospitality industry.

-Economic variabilities

Establishing a hotel in a new market is complicated by several economic factors. The list of potential factors includes the Development of the economy: Higher hotel occupancy rates might be expected if the economy is robust and stable. Jobless rate: a higher jobless rate is correlated with lower hotel occupancy rates. A hotel's operating costs, such as food, utilities, and labor, may be affected by inflation (Gunn & Var, 2020). Changes in the value of a country's currency may affect the price of products and services required to run a hotel, as well as the spending power of tourists. People's propensity to travel and book hotel stays may be affected by their level of consumer confidence.

An investor might begin their analysis of a new market by looking at economic statistics like GDP growth, unemployment rate, and inflation (Zafar, Wongsurawat & Camino, 2019). The number of tourists, the typical duration of stay, and consumer purchasing habits are just some of the market trends they may investigate. Hotels need to assess the competitive environment and their target market before investing in a new location. To accomplish this goal, it may be necessary to do market research to learn about the need for hotels, the tastes of tourists, and the specifics of the regional market.

-The advantages and disadvantages of entering a risky Market

Entering a risky market can have both advantages and disadvantages. One of the potential benefits to consider is the high potential for growth. Risky markets often have high potential for growth, which can lead to significant returns for investors who are able to navigate the risks successfully. Another benefit is the first mover advantage. By entering a risky market early, a company or investor may be able to establish a strong position before competition becomes too fierce (Przychodzen et al., 2020). Despite the advantages, there are also drawbacks. One of them is uncertainty. Risky markets are characterized by a high degree of uncertainty, which can make it difficult to predict outcomes or plan. The second disadvantage is the higher risk of failure. The chances of losing money are much higher in risky markets, as there is a greater potential for things to go wrong. The third disadvantage is lack of information. In risky markets, information may be scarce or unreliable, which can make it difficult to make informed decisions. Lastly, there are also legal and regulatory risks. Risky markets may be subject to less stringent regulations, which can increase the risk of legal or regulatory issues (Trigeorgis & Reuer, 2017).

The decision to enter a risky market should be based on careful consideration of the potential benefits and drawbacks, as well as an evaluation of one's risk tolerance and investment objectives. It is important to do thorough research and due diligence on the market and have a clear exit strategy in mind. Additionally, understanding and managing the risks associated with entering a risky market may require specialized knowledge and expertise, and it may be wise to seek the guidance of a professional advisor or to invest in a fund managed by an experienced investment professional.

Development Factors

It is common practice to construct resorts near or on the outskirts of a large airport. This will help visitors get to the resort quickly and easily. When planning for a new five-star resort or hotel, there are many real estate development factors to consider. The hotel's or resort's location is crucial since it determines both the amount of demand for the establishment and the demographics of its ideal guests (Ishizaka et al., 2019). Luxury hotels and resorts usually have a preference for convenient locations close to public transit and other services. The hotel or resort's design and architecture should be appealing and appropriate to the target demographic. The interior design of the hotel should be carefully thought out to make sure it lives up to the standards of luxury vacationers (Scott Lockwood personal communication, December 27, 2022). Offering a wide variety of first-rate services and facilities is essential for the success of any luxury hotel or resort. Some examples of these amenities include: spas, fitness centers, pools, and other forms of entertainment. Promotion and labeling Marketing and branding efforts put forward by luxury hotels and resorts are crucial. A memorable brand may set your resort apart from the competition and earn your guests' loyalty. It is crucial to investigate all of your financing choices before settling on one for the construction of your luxury hotel and resort. Finances might be obtained from any number of sources, such as banks, individual investors, or the sources themselves. Control and administration Successful administration and operations of a luxury hotel or resort depend heavily on the skills and knowledge of the people in charge, as well as on the reliability of the infrastructure and the effectiveness of the procedures in place.

Management and operations of a hotel or Resort

Managing a hotel or resort properly requires a wide variety of experience and training. A hotel or resort manager's ability to leave and encourage their employees to offer exceptional service to guests is contingent on their possessing certain critical talents and competence, as well as cool cooling leadership. Anyone in charge of the budget and finances at a hotel or resort needs a solid grounding in financial management concepts and the practical experience to put those ideas into practice (Köseoglu et al., 2020). To bring in guests and generate income, a hotel or resort manager has to be skilled in marketing and sales. Excellent customer service is something that should come naturally to the management of a hotel or resort. The day-to-day operations of a hotel or resort need the manager on duty to have a firm grasp of operations management concepts and the ability to successfully monitor those activities. A hotel or resort manager needs HR knowledge and skills to lead and grow their staff (Basnyat & Lao, 2019). Effective strategic planning is essential for every hotel or resort management who hopes to see their establishment reach its full potential. Overall, to successfully manage the property and provide good service to visitors, hotel and resort managers need to have a wide range of skills and experience.

How brand-new hotel developers position themselves in a new market for success

As a brand-new real estate developer it can be challenging to enter a new market and build a successful luxury hotel. Several factors can impact the success of your hotel, including location, competition, market demand, and the quality and reputation of your brand. To increase the chances of success, you will need to do market research to determine the feasibility of the project (Foroudi, et al., 2016). This includes understanding the local market demand for hotels, identifying any potential competitors, and understanding the specific needs and preferences of the larger target customer base. Carefully planning and designing the hotel to ensure it meets the expectations of luxury travel. This includes selecting high-quality materials finishes and amenities and ensuring that the hotel has a strong and distinctive brand identity. To promote your hotel and attract customers you would need to have a marketing and sales strategy in place. This includes online marketing public relations and partnerships with travel agents and tour operators (Foroudi, et al., 2016).

Finally, it's important to have a strong team in place to manage the hotel including well-trained professionals who can help you develop and execute a successful business plan (Varelas & Apostolopoulos, 2020). Several factors can cause your hotel to fail this includes:

1. Poor planning and execution
2. Inadequate marketing and sales efforts
3. Failure to meet the needs and expectations of your Target customer
4. Poor customer service

It is important to carefully assess and mitigate these risks to increase the chances of success for your hotel.

Barriers to consider

Investors may improve their chances of a positive return on their investment by learning as much as possible about the market. This includes the local real estate market, including its supply and demand dynamics, rental rates, and economic circumstances. Developers may use this information to better understand the local market and take advantage of any possibilities that arise. A real estate professional, lawyer, or other professional may assist developers by getting information about the local market and negotiating the legal and routine regulatory framework

(Robin, 2022). When breaking into a new market, it is important to put together a solid team of experts who are well-versed in the culture and have established relationships there. Reducing exposure to risk and increasing the likelihood of success may be achieved via portfolio diversification, which involves spreading investment capital out over a variety of asset classes and geographic locations. Maintaining a high degree of adaptability and flexibility is essential for developers because of the rapid pace at which markets may shift (Messier, et al., 2015). When breaking into a new market, it's always a good idea to get to know the local players, such as lawmakers, community leaders, and prospective purchasers or renters. Entering a new market successfully requires a blend of forethought, local knowledge, and flexibility.

Case Considerations

There are several key considerations for American real estate companies when introducing their products or services to a new market. First, it is important to thoroughly research the target market and understand its specific needs and preferences (Robin, 2022). This may include gathering information on local regulations, cultural differences, and economic conditions that may impact the demand for real estate. It is also important to consider the potential competition in the target market, and how to differentiate the company's products or services from those offered by competitors. In addition, real estate companies should carefully evaluate the potential risks associated with entering a new market. This includes financial, legal, and operational risks (Tien & Thuan, 2019). These risks can be mitigated through thorough planning and due diligence, as well as by building partnerships with local businesses or organizations. Real estate companies should have a clear marketing and sales strategy in place to effectively promote their products and services to potential clients in the new market (Gepner et al., 2022). AnalThis may include adapting marketing materials to the local language and cultural context and establishing a strong online presence to reach a global audience. Insight into the process is outlined by the findings of two hotel companies that were consulted during the research: Grossman Company and Choice Hotels International.

Grossman Company

Grossman Company Properties is a national real estate and property management firm, founded in 1962 by Jordon Grossman. With clients across the United States, Grossman Company Properties offer a full range of services, from full-service residential, commercial, and industrial property management to customized services and consulting. Additionally, GCP has specialized experience in meeting the needs of large-scale developers, with a dedicated team of professionals offering property research, among other services (Grossman Company Properties). With a commitment to giving clients personal, expert service, and an extensive network of resources, Grossman Company Properties has been providing exceptional real estate services for more than 50 years. Grossman Company is thus a major player in the property industry, building and managing a variety of projects for a wide range of clients across the country. By looking at their scope of projects and examining their methods of managing these properties, it becomes clear that the Grossman Company provides a unique contribution to the property industry.

As illustrated by John Grossman, the Chief Executive Officer, the real-estate has very specialized players compared to the past. For instance, Grossman Company focuses on a strict geographic region given the knowledge they have on the market (John Grossman, personal communication, December 27, 2022). Their business approach focuses on accessing areas with extremely high barriers to entry. This ensures a restricted number of competitors in the region and enables the developer to offer both competitive prices and an upscale luxury experience. It also has a reserved expansion strategy. Expanding into new markets remains limited given the huge financial resources required and other risks such as time to recoup the investment. The low leverage is one of the factors affecting potential expansion and maintaining markets given the global dynamics that is affecting the market such as the economic crisis of 2008. Hence the number of deals is limited by the need to protect the capital profile for the business to avoid elevated risk investments. However, developers that can access capital from other investors are likely to venture into high-risk investments with the potential to gain more within a short time.

For an international business seeking to enter into a similar niche as what John Grossman's company does, having a partnership is one approach to understanding the local market. Another approach is sending a team to study and understand the market, more of what Grossman does with its team and limited resources (John Grossman, personal communication, December 27, 2022). As illustrated by John Grossman, the company is very reserved when it comes to taking on risks, especially with regard to expanding into the international market. For instance, a potential expansion to Australia necessitated sending of a team from Grossman to evaluate the market. Mr. Grossman's review of how he would have chosen to begin operating his firm in a new market involved utilizing his present business model and evaluation matrix, just as he would if he were to select a new market in the United States. Initially, he evaluated a market comparable to the one in which the firm already operates a hotel. A tiny beachside community in Australia. Mr. Grossman, who already had a strong team operating in the U.S. market, used his present team to do the necessary analyses in order to determine whether or not the investment would be worthwhile. As the analyses progressed, it was apparent that sending the entire team overseas to pursue such an investment would be pricey. The company did not rely on local partners that could have provided more insight into the nature of the market, but banked entirely on its team as a cost-cutting measure. Eventually, Grossman ended up not setting up in the market due to identified unfavorable conditions. Transferring your present company model to a new market might be a dangerous entrance strategy, in my opinion. As stated previously, Mr. Grossman's company did not enter the market with their present business strategy since it did not meet their evaluation parameters. But there is always flexibility to examine and apply various measures based on how an already successful developer in that particular industry chooses to enter a new geographic market and how their business model functions. Many developers opt to concentrate on how they transition from one sector to another and utilize this information to determine whether joining a new market would be advantageous for their present businesses and demands.

Grossman Company Properties (GCP) has a track record of successfully partnering with institutional investors to create value in the acquisition of distressed assets. According to a 2020 report by MarketResearch.Biz, one of the primary advantages of GCP is their track record of “consistently outperforming the industry average in terms of investment return.” Through their method of seizing opportunities in undervalued markets, GCP is able to acquire distressed properties and turn them around quickly, providing investors with a fast return on their investments. Additionally, GCP is known for its hands-on approach to management, which provides investors with a level of service, expertise, and return not always offered by other real estate investment companies (John Grossman, personal communication, December 27, 2022). GCP is committed to their mission of making real estate investing accessible to everyone, offering investors a variety of ways to become involved in the process and allowing them to “benefit from knowledgeable guidance and expertise” (MarketResearch.Biz). Overall, GCP offers investors a well-informed perspective, strong investment return, and an accessible way to get involved with real estate investing.

Grossman Company Properties have established a successful and well-diversified portfolio of real estate investments. From their retail centers to their office buildings and other investments, they have properties in almost every major market throughout their region. They have effectively used their expertise in the commercial real estate industry to create a positive return on their investments and have solidified their presence in the real estate market. Their continued commitment to their mission has been a key factor in their success.

Classic Hotel and Resorts

Classic Hotel and Resorts is a major subsidiary of the Grossman. The chain is renowned for providing quality lodging and consists of luxurious resorts and hotels in many locations all over the world. As pointed out by John Grossman, the chain operates 30 rooms on the low end and 750 rooms on the high end (John Grossman, personal communication, December 27, 2022).

The hospitality industry has seen a growing trend of people choosing to book classic and traditional resorts instead of more modern and contemporary hotels. This can be seen in the increasing demand for higher-end independent inns and boutique hotels. The trend is thought to be the result of customers wanting to experience traditional accommodations that offer a more personal touch (Ro, 2018). The boutique hotel industry has become increasingly popular, allowing travelers to recreate a home away from home with the addition of high-end amenities. As this trend increases, it is clear that classic and traditional resorts are here to stay in the hospitality industry.

The hotel and resorts industry is beginning to center around providing a classic experience for guests. According to the American Hotel and Lodging Association, "In the hyper-connected world, guests are looking for a sense of community and a distinctive experience, not just a place to rest their heads" ("State of the Industry"). In an attempt to give guests, the best of both worlds, hotels and resorts are beginning to provide classic amenities paired with the latest innovations. By focusing more of its resources on providing a tailored experience, guests are more likely to remain loyal, allowing for more return visits in the future.

The classic hotel and resort industry has grown and adapted to the changing landscape of hospitality over the decades. Initially, convenience, quality and location were top priorities for guests, but now customer experience (CX) is what keeps people coming back for more. With the rise of digitalization, mobile services and technology-enabled customer engagement (Gazzoli, 2020), the classic hotel and resort industry is now focused on delivering personalized CX such as customized online booking options, tailored experiences during stay and loyalty programs (Etkin, 2018). By understanding customer needs and preferences, hotels and resorts can create memorable experiences for their patrons and exceed the expectations of even the most discerning guests. As noted by John Grossman, they even extend the personal touch to investigating what the client's preferences to make it part of the package, which has seen more return clients and improved on its occupancy rates throughout the year (John Grossman, personal communication, December 27, 2022). While operating a smaller boutique hotel, Classic hotels enjoy an advantage. This enables the CEO to make decisions without needing to consult with an official board. A customized luxury experience will make a lasting impression on the guest. Providing guests with a reason to prefer this brand over larger competitors. A more individualized stay. I believe this one aspect enables a more luxurious experience and distinguishes smaller luxury boutique companies by going beyond what larger brands may fail to achieve.

In recent years, innovation has become increasingly essential in the hospitality industry, particularly in the hotel and resort sector. According to Grossman (2015), “innovation can bring numerous changes both to the end product, the service offering and the organization.” Because of the increased use of technology and digital services, such as online travel agents, hotels and resorts have had to look for solutions to differentiate themselves from the competition and offer unique experiences for their customers. Grossman (2015) identifies four core areas that can be targeted for innovation: products, services, operations and competitive strategies. These innovations can create a competitive advantage and make a hotel stand out from other facilities in the same industry. Moreover, an increase in customer satisfaction and greater efficiency are often observed when applying innovative strategies in the hotel and resort industry.

Classic Hotel and Resorts provides a wide range of hotel and resort options across the world that offer guests a unique and luxurious experience. From all-inclusive resorts to international orientations, Classic Hotel and Resorts strive to give each guest a truly unique and memorable experience. With top-notch facilities and amenities at each of their locations, they guarantee an unforgettable stay that cannot be matched by any other chain.

Providing a very personalized experience for visitors is, in my opinion, a crucial part of operating a boutique hotel. Finding a means to distinguish your hotel brand and providing visitors with a unique experience might be one of the determining factors between your hotel becoming a premium brand or a common brand comparable to other hotels.

Choice Hotels International, Inc.

Choice Hotels International, Inc. is a hospitality company that franchises over 7,000 hotels, resorts, and extended-stay properties in more than 40 countries and territories around the world. The company was founded in 1939 and is headquartered in Rockville, Maryland. Choice Hotels offers a variety of hotel brands for different types of travelers, including Comfort Inn, Comfort Suites, Quality Inn, Sleep Inn, Clarion, Cambria Hotels, MainStay

Suites, Suburban Extended Stay Hotel, Econo Lodge, and Rodeway Inn. Each brand caters to a specific type of traveler, with amenities and services tailored to meet the needs of business travelers, families, and leisure travelers. Most of the franchise agreements are meant to last 30 years with the company targeting 9 percent of the gross revenue as part of its royalty fee (Scott Lockwood personal communication, December 27, 2022). In addition to its hotel franchises, Choice Hotels also operates a loyalty program called Choice Privileges, which rewards members with points for staying at any of the company's hotels. Members can redeem their points for free nights, room upgrades, and other perks. Overall, Choice Hotels is a well-respected and established player in the hospitality industry, with a long history of providing high-quality accommodation and excellent customer service to travelers around the world.

Choice Hotels assists in identifying locations for prime investment for hotels that has appropriate amenities within walkable distance, permissible for hotel construction, and favorable building code requirements such as parking requirements, and number of floors (Scott Lockwood personal communication, December 27, 2022). There are risks involved, so developers can either make a lot of money or lose a lot of money. However, risk mitigation requires detailed examination of the identified site. This is to ensure it aligns with the requirements for a hotel setup that meets the requirements of the company. Factors such as zoning and the approval process are looked into with the hotel group. For instance, in Mesa, Arizona, the approval process is streamlined and simple making it possible for a potential investor to start construction work and set up a hotel within a short time (Scott Lockwood personal communication, December 27, 2022). However, one has to adhere to the code that specifies up to four stories, rooftop bar, pool, parking, landscaping among other possibilities as required by the developer. The process of acquiring the land also requires early capital preparation as within 6 to 9 months, the value of the land will appreciate as the developer waits for due diligence to be carried out to get the entitlements. Working with good real estate attorneys can help streamline the process. Another risk involves uncertainties surrounding the cost of construction, especially the cost of materials that have to be imported, and the cost of labor (Scott, personal communication, December 27, 2022). Other factors such as interest rates, that is on the rise in the United States, is slowing down development in the real estate sector as developers wait for favorable rates. Despite inflation and high interest rates, the cost of labor is on the decline because of the influx of home builders that are looking for opportunities in the hospitality sector. For instance, the cost of a project done by Choice Hotels came down to $238 a square foot to $266 per square foot within five months (Scott, personal communication, December 27, 2022). The tradeoff comes in analyzing the extra cost of interest against the reduced cost of construction.

The disruption of the global supply chain is another challenge affecting the development of real estate in the United States. For instance, factories supplying furniture and interior design products were shut down during the outbreak of the covid pandemic slowing down the developers. Choice Hotel has been forced to make orders a year in advance so as to have deliveries 12 months later in 2024 (Scott, personal communication, December 27, 2022). Such uncertainties are discouraging faster development as envisioned by the developer.

For a developer seeking to join Choice Hotels, it is possible to work with Choice Hotel from the onset to analyze the potential site and work through the entire process of setting up a hotel to its launch. Broad spectrum investors that depend on crowd/online funding are also part of the developers that are involved in the hotel sector. Typical projects tend to be expensive, going as high as $20 to $40 million hence the need to crowd source for the funds. The cost could even go higher considering that the cost of the land can range between $10 to $15 million and the cost of putting up all the different amenities can push the cost to over $100 million when trying to build a $25 million hotel (Scott, personal communication, December 27, 2022).

The management systems for the hotels also differ depending on the agreements. Most high-end luxury hotels brands tend to use their own management companies to manage the assets and operation of the hotel. In such an arrangement, the developer pays a royalty fee to the top line revenue, which is disadvantageous considering that the developer has no control over the labor models, which can result in overstaffing and other details on operating the hotel. The developer is thus affected by the bottom-line revenue. However, Choice Hotels do not manage any assets leaving the developer to decide on the management of the hotel.

Joining a company like Choice simplifies the process of entering into a Franchise Agreement arrangement with a recognized brand for developers. This allows the hotel to have a well-recognized name and greatly improve its marketing reach. There are many advantages to partnering with an established brand, as well as disadvantages. One of the major disadvantages would be the contractual arrangement between the developer and the hotel chain. This would involve but not limited to selecting an operator and adhering to the brand guidelines thus limiting the developer's ability to make selections.

Franchise Agreement vs Management Contracts vs Ownership

Franchise agreements, management contracts, and ownership are three different legal arrangements that can be used in international investments in luxury real estate. A franchise agreement is a legal contract between a franchisor (the company that owns the brand and intellectual property) and a franchisee (the person or company that buys the right to use the brand and sell the franchisor's products or services). In the context of luxury real estate, a franchise agreement might be used to allow a foreign investor to open a luxury real estate brokerage that uses the brand and operating model of a well-known international brokerage firm.

A management contract is a legal agreement in which one party (the manager) agrees to provide certain services to another party (the owner) in exchange for a fee. In the context of luxury real estate, a management contract might be used to allow a foreign investor to hire a local company to manage the day-to-day operations of a luxury real estate development. Ownership refers to the legal right to possess and control property. In the context of luxury real estate, ownership might be acquired through the purchase of real estate assets, such as a luxury condominium or a vacation home. Foreign investors can own luxury real estate in many countries around the world, but it is important to be aware of any legal restrictions or requirements that may apply.

There are many hotel companies that have franchise agreements with individual hotel owners or management contracts with hotels. Choice Hotels International, Inc. franchises over 7,000 hotels, resorts, and extended-stay properties in more than 40 countries and territories around the world. Marriott International is a large franchise business model, with over 30 hotel brands and more than 7,000 properties around the world. Franchisees own the hotel and agree to follow Marriott's brand standards and pay a fee for the use of the brand. Marriott has a number of franchise properties in Dubai, including the JW Marriott Marquis Hotel Dubai, the Marriott Hotel Al Jaddaf, and the Marriott Hotel Downtown. Hilton also operates a large franchise business model, with over 6,000 properties in more than 100 countries. Hilton franchisees own the hotel and agree to follow Hilton's brand standards and pay a fee for the use of the brand. Hilton has several franchise properties in Dubai, including the Hilton Dubai Creek, the Hilton Dubai Jumeirah, and the Hilton Dubai The Walk. InterContinental Hotels Group (IHG) is another example that operates a mix of franchise, management, and lease agreements for its more than 5,800 hotels around the world. Franchisees own the hotel and agree to follow IHG's brand standards and pay a fee for the use of the brand. IHG also has management contracts with hotels where the owner retains ownership of the property and IHG manages the day-to-day operations. Accor operates a mix of franchise, management, and lease agreements for its more than 4,800 hotels around the world. Accor also has a program called "HotelInvest" that allows investors to purchase a stake in a hotel and receive a share of the profits.

Dubai Luxury Real Estate

Dubai has long been a destination for international real estate investors and developers due to its strategic location, strong economy, and attractive lifestyle. In the past, the city's luxury real estate market was driven by demand from wealthy individuals looking for a second or vacation home, as well as investors seeking to take advantage of the city's strong rental market.

In recent years, Dubai's luxury real estate market has continued to grow and evolve, with demand for high-end properties remaining strong. Factors that have contributed to this demand include the city's thriving economy, which is supported by a diverse range of industries including tourism, finance, and trade, as well as its favorable tax regime and business-friendly environment (Alawadi, Khanal & Almulla, 2018).

Dubai's luxury real estate market is also supported by the city's strong infrastructure and amenities, including world-class shopping centers, sporting facilities, and cultural attractions. The city is home to a number of iconic developments such as the Burj Khalifa, the world's tallest building, and the Palm Jumeirah, an artificial island with luxury homes. Looking to the future, Dubai's luxury real estate market is expected to continue to grow and evolve, with a number of large-scale projects in the pipeline. The Dubai Creek Harbor, for example, is set to include a number of luxury residential developments, while the Dubai Hills Estate will feature luxury homes, apartments, and townhouses. Dubai's luxury real estate market is significant in terms of its size and potential for growth. The city is home to a number of world-class developments and attracts a significant number of international investors and developers, making it an important player in the global real estate market.

Comparing Dubai and the United States

When comparing Dubai with the United States, there are some significant differences and similarities that might impact on the investment in luxury real estate. Dubai and the United States are both large, diverse countries with significant economies and a range of cultural attractions. However, there are also a number of important differences between the two. One key difference between Dubai and the United States is geography. Dubai is a city-state located in the United Arab Emirates (UAE) on the Arabian Peninsula, while the United States is a federal republic comprising 50 states and a number of territories and dependencies.

Another significant difference between the two is their economies. Dubai's economy is primarily driven by trade, tourism, and finance, while the United States has a more diverse economy that includes a range of industries such as manufacturing, agriculture, and technology (Callen et al., 2014; Bai et al., 2020). There are also differences in terms of culture and society. Dubai is an Islamic city with a large expat population, while the United States is a multi-cultural society with a diverse population. In terms of investment in luxury real estate, both Dubai and the United States offer a range of opportunities for investors. One key difference between the two is the nature of the luxury real estate market. In Dubai, the luxury real estate market is largely driven by demand for high-end properties from wealthy individuals looking for a second or vacation home, as well as investors seeking to take advantage of the city's strong rental market. Most of the owners come from outside Dubai with the value of investment in offshore real estate being at least $146 billion in foreign wealth (Alstadsæter et al., 2022). The United States, on the other hand, has a more diverse luxury real estate market, with demand coming from a range of sources including wealthy individuals, families, and investors.

Both Dubai and the United States have faced a number of issues in their luxury real estate markets. In Dubai, the global financial crisis of the late 2000s had a significant impact on the luxury real estate market, with many projects being delayed or canceled (Hvidt, 2011). However, the market has since recovered and continues to thrive. In the United States, the luxury real estate market has also faced a number of challenges, including economic downturns and the impact of natural disasters such as hurricanes. However, the market has remained relatively resilient and continues to attract significant investment. One key factor that has impacted investment in both Dubai and the United States is local laws and regulations. In Dubai, the government has implemented a number of measures to encourage foreign investment in the luxury real estate market, including favorable tax regimes and a streamlined process for obtaining visas and purchasing property. In the United States, laws and regulations governing real estate investment vary by state, with some states offering more favorable conditions for investors than others.

Conclusion

In conclusion, the luxury real estate market continues to evolve with new insights that necessitate innovation and invention that continues to keep the market attractive. Dubai and the United States offers a range of opportunities for international investors and developers as both markets are supported by strong economies and favorable conditions for real estate investment, including tax incentives, financing options, and potential for capital appreciation. As noted by the findings of the research, there are several factors that influence investment in luxury real estate. The first consideration is location. Luxury real estate is often located in desirable areas, such as beachfront properties or properties in city centers and in places with appropriate amenities. The location can significantly affect the value of the property and can also be dictated by local regulation and zoning practices. As noted in the findings, Choice Hotels is always keen on identifying a strategic location that it can refer an investor or a developer to work with. The second consideration is the economic conditions. This aspect applies when moving to international markets as well as from one state to another. The state of the economy can impact the demand for luxury real estate. For example, during times of economic growth, there may be more demand for luxury properties. The condition of the market is the third consideration. The supply and demand for luxury real estate can also affect its value. If there is a high demand for luxury properties and a limited supply, the value of these properties may increase. The other consideration is amenities and features of the property. Luxury properties often come with high-end amenities, such as swimming pools, gyms, and concierge services. These amenities can increase the value of the property. For instance, in Mesa, Arizona, a developer for luxury real estate must adhere to the code that specifies how the amenities will be developed.

Entering a new market can also be complex and challenging as noted through Grossman Company Properties with a range of risks and issues to consider. When venturing into the international market, issues such as political stability and currency exchange rate also affect the prospects of success. For instance, if a country or region is experiencing political turmoil, it may be less attractive to potential buyers. Moreover, if a foreign currency is strong compared to the local currency, it may be more attractive for foreign buyers to invest in luxury real estate in that country.

It is thus important for international investors and developers to carefully evaluate the risks and opportunities presented by different markets, and to work with local partners and experts to navigate the local landscape. International investments in luxury real estate can be a rewarding endeavor for those who are able to successfully navigate the various challenges and opportunities presented by different markets.

Appendix

Interview Questions

Overview

1. What were the primary factors that led to the selection of the market for the project we are discussing?
2. What was the underlying thought process going in?
3. How exactly did you do the market analysis? Has any research or analysis been carried out into similar markets, in which this initiative could have been able to achieve the same level of success?
4. How did you become aware of the need for this project?

Risk & Return Trade Off

5. What were the major risks and concerns going into the project?
6. How were your risks evaluated?
7. What are some of the business customs that you experienced as the life cycle of the project continued? Given that each country has its own standards about the way in which it does business, what practices did you come across?
8. What was the extent of the risk?
9. How were these risks mitigated?
10. What were the major barriers with this project?
11. Was there a particular aspect of the project that you felt you evaluated poorly?

Investment

12. What evaluation was conducted to understand if your current business model will translate?
13. Did your business model translate or was it tailored to the specific market?
14. How do your investors participate in the decision-making process for entering a new market?
15. What kind of local team, including consultants, were required to keep the project on track, and how was it accomplished?

Asset Specific

- *Resort/Hotel*

16. Is there a procedure of voting or bidding that one brand must go through to be given the chance to purchase and construct on a certain piece of land? If so, what was your competitive advantage?
17. What criteria were used during the selection process for the construction process?
18. Are local community people extensively engaged in the development, or does the presence of a foreign developer make local community members uncomfortable?

- *Residential*

19. In certain areas of the United States, such as Boston, development needs some type of community benefit in return for higher FAR or less affordable housing, etc. Regarding your projects, have you met any demands from municipal, town, or government officials?

Conclusion

20. What would you have changed or what do you want to change in future projects?

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