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Avison Young's relentless expansion will not stop at U.K.

Paul Brent | Property Biz Canada | 2014-05-01 | (0) Reply

Real estate services firm Avison Young is really, really busy, as anyone checking out the Toronto-based outfit's website can attest. In the month of April alone, it churned out 10 separate press releases touting everything from market reports and forecasts to acquisitions.

The company is clearly ambitious and energetic, but it was the first announcement of the month, on April 1, that provides outsiders with a sense of its long-term ambitions. Avison Young, which touts itself as "the world's fastest-growing commercial real estate services firm," unveiled the first step in its European push with the acquisition of London-based services firm Haywards LLP and the opening of Avison Young offices in London and Thames Valley in the United Kingdom.

Don't expect it to stop there.

"We are in the midst of working on a number of acquisitions all throughout the U.K. and Germany right now," said Mark Rose, AY's chair and CEO.

The firm's acquisition model is relatively straightforward. It looks for principal-led firms that fit with its principal-driven, clients-services first model, according to Rose. In the case of NAI Haywards, it adds 20 new employees and Haywards partners Nick Cook, Tony Oxford, Iain Rackley and Sarah Cook become principals of their new parent organization.

How much?

The firm's growth in the services space is stunning. Over the past five years, Avison Young has swelled from 11 offices to 56 locations in 45 markets and from 300 employees to more than 1,500.

Most of that growth has been concentrated in the U.S. and has been even more recent, as the first year of the five was devoted largely to AY's Canadian operations. "In the last three and a half years we have opened up 40 offices and (added) 1,000 people," said Rose.

In April, the firm acquired Austin, Texas-based commercial real estate services firm Commercial Texas, giving it a new office in that city. It also marks its third location in the Lone Star state and 40th U.S. office.

Rose said the torrid U.S. growth "is no different than what we were able to accomplish in Canada." In its home market, AY concentrated on expanding its service lines and offerings and it has done the same after acquiring offices in the States, he said.

"We did it the exact same way, which was to put flags in the major cities in the U.S. and fill in around it."

Currently, AY's biggest U.S. offices are in California, New York, Washington and Chicago. The Windy City location also has a new boss as of mid-April. Danny Nikitas, formerly executive vice-president with MB Real Estate in Chicago, is the new managing director of the Chicago office and will help expand AY's U.S. Midwest footprint which currently includes outposts in Detroit and Cleveland.

He replaces Michael McKiernan, the five year-managing director who will assume "senior production responsibilities, primarily in the industrial sector, with key national and regional clients."

Model key

Rose credits AY's principal-operated office model as the key to its five-year run. "Each time it is really the same story: we have a principal-led organization, we have a client service model that is completely different from anyone else, we have individuals who are tied together for the long term and, since we are not a public company, as opposed to the rest of our competitive set, we are not measured in 90-day increments."

That last point is key, he added, stating that the newly acquired offices take about 18 months to become fully part of the parent organization.

"It is not just people that we have brought in here. The client roster has just exploded in terms of who wants to be serviced by people who have complete alignment around operational, financial and reputational accountability."

We will have to take Rose's word on those claims because another benefit of its privately owned model is that it can keep details such as revenue and profitability private.

Going global

Officially, the company's European operations are solely in the U.K. but that is not exactly true, the CEO allowed. "We do have another European office open already, we just haven't told anybody about it because we are working on some things to make a large announcement." That large announcement, he acknowledged, is in Germany, which means AY is already unofficially operating in Deutschland.

Rose does not want to stop its geographic expansion at the U.K. and Germany, which he describes as the two strongest countries in Europe.

"That is where we will start but over time, you will see us in the Netherlands, in Spain and in Ireland and obviously after

Germany, the next one is Paris,” he said. “This whole strategy is methodical and simple: we go where the decision-makers and the inventory sit, and then strength of country really dictates” order of expansion.

From Europe, AY expects to target Asian expansion in “the next 18 months.”

“It can be one of several places. Think large, powerful cities with the largest occupiers, the largest inventory, financial markets,” Rose said. “It could be Hong Kong, you would normally actually go Tokyo first, but Tokyo is a fairly difficult place to break into.”

State of play

Now a third of the way through 2014, the Avison Young chief is sticking with the firm’s annual forecast which sees Canada as stable expansion, the U.S. as offering more growth potential and higher rates coming – sometime.

“I wouldn’t say peak but I would say very toppy,” he said of the Toronto commercial real estate market. “We are at that place in Toronto where we are starting to build. That will create some pressure.”

Interest rates remain the wild card.

“There is literally only one way to go – up – and in the next 18 to 36 months, interest rates will go up, we will have a blip. I think people are starting to worry about it now. That doesn’t mean a recession, that doesn’t mean a collapse. What is means is there is a difficulty meeting the expectations of sellers and buyers right now.

“I think that is the typical example of where you hit a point where you are stuck a little bit because you are so toppy.”

As for the U.S., the market is coming off the bottom and some markets have gotten back to where they were prior to the recession.

“Miami pricing has now exceeded 2007 pricing,” he said. “In the coastal markets, the cap rates are very, very low. I think the secondary, tertiary markets are showing better value and they are recovering. The strength of the underlying market is strengthening although the pricing has gotten ahead of itself again in certain markets.”

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