

University of Pennsylvania
The Wharton School
REAL 890
INTERNATIONAL REAL ESTATE COMPARISONS
FALL 2010 - Second mini-mester
Nov. 1 – Dec. 6, Mondays
3-5:40pm
350 SH-DH

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Office Hours: Appointments are made by emailing me to arrange a time. *I will only discuss course topics (not your job search) during office hours.*
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PLEASE NOTE: ABSOLUTELY NO LAPTOPS, PHONES, BLACKBERRYS, OR SIMILAR DEVICES MAY BE USED IN CLASS

NOTE: ONLY STUDENTS ENROLLED IN THIS COURSE FOR CREDIT MAY ATTEND CLASS SESSIONS. NO CLASS AUDITING IS PERMITTED.

This course meets for 6 sessions of two hours and 40 minutes each. Class begins promptly at 3 p.m., and will end at 5:40 p.m. No break will be taken.

I will treat you as a high quality professional that is committed to their full-time job as a Wharton student who works on average 10 hours a week on each of your courses, I therefore expect 60 hours of work on your part over the 6 weeks of the course. This consists of roughly:

- 16 hours in class (you are expected to attend all in their entirety)
- 44 hours total (11 hours per week) on the 4 weekly assignments.

The 4 weekly assignments will be completed in 4 person groups. I will create new groups randomly for each week no exceptions, allowing me to evaluate “your” work product. Each team is expected to spend approximately 44 hours (11 hours by each of 4 team members) on each of the 4 weekly assignments.

These assignments are the only way to dig in and learn about markets, and are similar to the work you will do on a job. You will be graded as a group for each assignment.

Your grade will be determined by your total point total for the term. A maximum of 100 points are possible (25 points for each of 4 weekly assignments).

Each week your team is to write a coherent and compelling 2 page business memo (including all tables, charts, etc.). Nothing beyond 2 pages will be read. This memo is due (in hard copy) by noon Monday of each week in printed form outside of my office in SH-DH. It must be in the format of a business memo addressed to me, with standard spacing.

Your memo will be reviewed by a reasonably intelligent, experienced, and busy real estate professional that will spend about 10 minutes reviewing your memo. Each will be categorized as:

- “compelling” (22-25 points)
- “interesting” (17-21 points)
- “nothing special” (10-16 points)
- “I don’t get it” (0-9 points).

If the memo is submitted late, each group member will automatically lose 6 points. If it is more than 24 hours late, each group member will lose 15 points. If it is not handed in by the end of the week, each group member will lose 25 points.

It is your responsibility to create a coherent and compelling memo.

The second grading factor is that your group may be one of 3 groups randomly picked (possibly more than once) to make a 25 minute presentation of their solution to the weekly case assignment. Failure to present a lively, informed, detailed, well organized, thorough, and well timed presentation will result in a 1-10 point reduction for your group.

You are responsible for the group’s report and presentation, not just “your part”. It is not acceptable professional behavior to say “well that was Mary’s part and I don’t know anything about it, and she’s not here today.” Team work increases (not reduces) individual responsibility.

You will not know which groups will be selected to present until you arrive for each class session. Since it is a random selection, be forewarned that your group may be picked more than once (or never).

Assignment presentations should present their solution mindful of:

- Relevant national history
- Relevant cultural and political features
- Key economic, demographic, and geographic features
- Economic drivers
- Relevant political fault lines
- Key business issues
- Governmental regulatory framework
- Location of product
- Key property locations
- Key owners and users
- Development activity
- Vacancy history and outlook
- Rental history and outlook
- Pricing history and outlook
- Key recent transactions
- Transportation patterns
- Current challenges and opportunities facing the market.

Note that each presentation is to be 25 minutes (not 23; not 27) in length. It should be professional and well organized. Be prepared to present even if PowerPoint is unavailable (systems malfunction). Carefully organized thoughts, not a collection of PowerPoint slides, comprise a presentation. Remember that PowerPoint is just a tool, not the product. So spend most of your time thinking rather than designing pretty PowerPoint slides.

Each class will flow as follows:

- my 5 minute introduction
- three 25 minute group presentations on the weekly assignment
- a 30 minute discussion of the case and the presentations

The remainder of the class will discuss issues of relevance for the country's real estate markets.

A third grading factor is that you will lose 15 points each time you miss any of the final 4 weeks of the class (barring a serious medical/health reason). After all, what would happen if you missed 20% of your work time? In short, you will be graded on the basis of your performance as a full-time student (working 50 hours a week on their courses) at a premier educational institution.

Course Schedule

Nov 1: Course introduction and an introduction to global cultural and economic issues. How are we similar and different? What are the key economic issues? What is happening and why?

Nov 8:

3-4:15pm: Global real estate capital markets. Where does the money come from? What ownership structures are used? Debt and equity trends.

4:15pm-5:40pm –"Understanding a Market: The Case of Germany (Guest discussion with Johannes Mann)

No Drops Permitted After Class Ends on November 8 (absent an approved medical problem)

Nov 15 Weekly assignment: – London Retail

Your firm has been engaged as the real estate advisor to "Girls on the Go" (GOG), a rapidly growing specialty retail chain. GOG focuses on upper end clothing and accessories for 16-25 year old women. It currently has 35 stores in the US, located in prime urban CBD markets and top quality regional malls. Their stores in the US average sales well in excess of \$500/ft². Their preferred format is roughly 5,000 ft².

GOG has decided that the time is right to enter Europe. In particular, they have selected the UK as their initial target market. To this end, they have engaged your firm to advise them on selecting locations for 4 stores in the Greater London area.

They have requested a 2 page memo summarizing your recommendations. Their European team has requested a 25 minute presentation. They have asked you to recommend sites (with as much specificity as possible), including your reasons for these sites, lease terms, and store sizes.

Nov 22: Weekly assignment: – Hamburg Apartment Portfolio

3-4:20pm – Guest speaker Albert Ratner, Chairman Emeritus of Forest City Enterprises.

4:20-5:40pm – (Note only 2 groups will present this week).

The Hamburg Port Authority (HPA) is selling 3,000 apartment units they currently own and operate.

The residents of these units are:

- 50% retired HPA employees
- 40% current HPA employees
- 8% other tenants
- 2% vacant.

The units are standard German apartments (45-85 m²) with

- 60% built 1920-1950
- 30% built 1951-1965
- 10% built 1966-1980.

The units are scattered across some 250 buildings, almost all of which are 6 story walk-up units. Few of the units include parking spaces, as the portfolio consists of just 500 (uncovered) parking spaces. These parking spaces lease for an average of €30/month, and generally have zero vacancy.

All units are subject to typical German rent control regulations, and are in solid physical condition. On average, residents have lived in their units for 26 years. The units are modestly landscaped and reasonably well maintained. The units range from 45-85 m², with an average monthly cold rent of €1,200/month.

The units are located in solid middle class neighborhoods scattered throughout the city of Hamburg, with the majority within 5 kilometers of the port.

Key pro forma 2010 financial results are:

- Apartment revenues €42.3M
- Parking revenues €0.2M
- Operating costs €20.0M
- G&A costs €10.0M
- Capital expenditures €10.0M.

They have 200 full time employees at the apartment operation, including both management and property level personnel. The average employee is 53, with an average tenure with HPA of 28 years.

You are interested in operating this portfolio, and are seeking a capital partner to purchase the portfolio. You are scheduled to meet with the matriarch of a high wealth German family to discuss your strategy to purchase (with the family as your primary equity source) this portfolio. She has requested a 2 page memo prior to your 25 minute presentation discussing your acquisition and operating plans.

Nov 29: Weekly Assignment: Tokyo Office

You work for Still Alive (SA), a global financial firm which has survived the crisis with flying colors. They view this as an opportune time to expand in Japan, using Tokyo as their Asian headquarters. SA's CFO has requested that you develop a 2 page executive summary and a 25 minute presentation on where in Tokyo you believe the firm should establish its office. This includes location (and building, if

possible) recommendations, as well as expected costs and whether to lease or purchase the space. He wants to be in the space no later than June 1, 2011, as the current lease expires May 31, 2011.

The staff for the firm is (and expected to remain) about 98% Japanese and 2 % ex-pats. Staffing (including support staff) projections are summarized below.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Investment Bank	150	165	180	200	230
Merchant Banking	30	40	50	50	50
IT	10	10	15	15	20
Accounting Admin	30	35	40	45	50
Sales/Trading	30	30	35	35	40
Asian Headquarters	15	20	30	40	50

Dec 6: Weekly assignment: China industrial/warehouse

A major US institutional investor desires to enter China in a big way, viewing it as their growth market for the next 20 years. They have allocated a commitment of \$500 M in equity over the next 5 years. They prefer to enter as quickly as possible to take advantage of the crisis mentality and to quickly diversify their portfolio into China.

They are seeking modestly leveraged high quality warehouse and industrial space. Their target IRR is 10-14%, and their targeted hold period is roughly 10 years.

They have engaged you to develop a realistic investment strategy, including how quickly the capital can be deployed, leveraged strategy, expected returns, operating strategy, exit strategy, and currency hedging strategy. The institution's CIO has requested a 2 page memo summarizing your views. In addition, she has requested a 25 minute presentation on how you feel she should proceed.