

University of Pennsylvania  
The Wharton School  
**REAL 890**  
**International Real Estate Development and Investment**  
**Fall 2012- Second mini-mester**  
October 29 to December 3  
**Mondays 3-6pm**

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Fred Cooper, Toll Brothers, Case Advisor/Lecturer

Room JMHH F90  
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**Course objective:** This 6 weeks course will expose students to the world of cross-border real estate development and investment, with a focus on fast growing emerging market economies. It will teach the rational for international RE investing and its challenges – including demographic, economic, transparency, taxation, subsidy, regulatory and legal issues, the macro factors that influence real estate markets across countries, the strategy of composing an international RE portfolio, the micro factors that will determine the ultimate performance of the investment, and the different investment formats suited to different international settings. International cases presented by practitioners are an integral part of the course. Cases have been selected to cover different types of RE developments – residential, office, retail, hospitality, and logistics -, important emerging market countries/continents and different investment strategies. While not a prerequisite, it is advisable to take a Real Estate class prior to taking this class.

**Teaching format:** The first part of each class will be devoted to *teaching the analytics of global cross-border RE development and investment*. The second part is devoted to *case presentations* by leading executives in charge of major international RE projects or funds. There will be time for student questions at the end of each presentation. Student participation is an integral part of the class and weekly assignments are focused on the cases that are presented.

The class will start promptly at 3pm and ends at 5.50pm, with a 10 minute break at 4.15pm. Guest speakers will begin at 4.25pm sharp. Some classes will begin with student presentations.

**Preliminary Schedule of Case Presentations:**

11/5	South /East Asia/LA/MENA	China,India, Brazil/UAE	Residential	Toll Brothers/ Developer	Fred Cooper, Senior VP
11/12	Global	Emerging markets	Mixed portfolio	European Investors Inc./ Investor	James Rehlaender, Managing Director
11/19	E/C Europe	Russia	Logistics/Retail	Multinational Logistics Partnership/Logistics-Retail Investment Co	Bruce Gardner, Principle
11/26	Sub-Saharan Africa	South Africa	Residential/rental and ownership	IHS/ Equity fund	Soula Proxenos/ Managing Partner
12/3	Latin America	Across countries	Hospitality	Makopastreet /Financial Advisors-Investors	Andrew Stein President, CEO

### Assignments:

1. **Short assignments.** There are *3 assignments to be completed by 2 person groups* (randomly assigned) that require you to comment on case presentations made in class. In a short (max 2 pages) memo to be addressed to “the division director in your firm” you will set out the strengths and weaknesses, and lessons of the case for your firm which is considering a similar type of development /investment strategy. These assignments will have to be in my box (hard copies) on Friday at noon. You will receive a max of 100 points for the 3 assignments; 33 max for each on a scale ranging from 33 to 0 according to the following criteria: compelling, interesting, bland to incomprehensible.

*One or two groups will be randomly selected to present their case at the beginning of class the following Monday. A maximum of 10 minutes per group will be allocated. If the group or a person fails to present or presents poorly, 1-10 points will be deducted; if it presents a clear case it will receive bonus points.*

2. **Final assignment.** In groups of 5 (again randomly assigned) you will conduct an international RE scoping exercise which will be posted on November 26 and is to be handed in on the last day of class, Monday December 3 at noon (hard copies). The case is to be presented in the form of a business memo to the “international/country head of your firm” and should not be more than 4 pages long including graphs and tables. A short PowerPoint presentation has to be attached. You will receive a max of 75 points for this assignment.

*Three groups will be randomly selected to present their cases in 15 minutes (precisely!) each during the first half of the class on Monday December 5. The same grading scale for presentations will apply as for the short assignments.*

For all reports and presentations the key elements are:

- **Organization & content**== information to be presented in logical sequence from introduction to conclusion & content depth supports assertions and recommendations (20%)
- **Research, Subject knowledge and Resources** == demonstrated expertise and concise and clear explanations, credible research and data analysis with cited references (20%)
- **Visual Aids (final assignment)** ==clear and creative aids not a random selection of PowerPoint slides (10%)
- **Writing/Delivery**==report/presentation clearly and effectively communicates ideas and engages the reader/audience, key points should be clearly and concisely highlighted (50%)

### Class Etiquette:

1. *Attendance and class participation* are critical in this case oriented class. Assignments are based on cases that are presented during class and student presentations are an integral part of the class. Student presentations will start off each class and it is therefore important to come in time. Attendance will be part of your grade.
2. Laptops, Cell phones, iPhones and similar devices may not be used in class.

**Schedule of Topics and Readings:**

As much as feasible the lecture topics of each class are related to the specific focus of the case studies presented in the second part of the class. Readings are a mixture of analytical papers related to the class topic, and industry analyses related to the type of real estate investment and continent/country of the cases that are presented during that session.

**10/29 Topic: Global Real Estate Markets / Rationales for Cross Border RE Investing**

Global Macro-economic/Demographic Overview  
Rewards of International RE Investing  
Risks and Costs of Cross-border Investing  
Transparency and Risk Analysis  
Currency risk

**Readings:**

- Eicholtz, Gugler, Kok. Transparency, Integration, and the Cost of International Real Estate Investment, in JREFE, April 2007
- Jones Lang Lasalle. The Expanding World of Cross-Border Real Estate, Investment Strategy and Research, 2011
- Zell, Sam. Evolution Revolution, Wharton RE Review, Vol. XV, 1 2011
- Gordon, Jacques. The Surprises of International Real Estate, Wharton RE Review, Vol. XV, 1, 2011
- JLL. Revolution and Real Estate: Cairo, Pulse, April 2011
- JLL. Real Estate Transparency, Back on Track, 2012

For reference:

- Bloom, David E. 7 Billion and Counting/ and Population Overview, in Science, August 21, 2011
- JLL. Global Market Perspective, Q3 2012
- JLL. From Opacity to Transparency, The Diverse World of Commercial Real Estate, 2008
- JLL. Mapping the World of Transparency: Uncertainty and risk in real estate, 2011

**11/5 Topic: Macro-Level Analysis**

Demand analysis  
Property Market fundamentals  
Property Market Cycles/Vacancies  
Supply constraints real side (land, infrastructure)

**Case: Opening New Markets; the Case of Residential Development in Brazil, China, India. Toll Brothers, Fred Cooper, Senior VP.**

**Toll Brothers, Inc.** ([www.Tollbrothers.com](http://www.Tollbrothers.com)) is the largest builder of luxury homes in the United States and among its largest land developers. The Company, publicly listed on the New York Stock Exchange since 1986 (TOL), operates in 20 states and more than 50 markets and builds luxury residential communities principally on land it develops and improves. In 2006, Toll Brothers began exploration of international expansion, led by Fred Cooper, Senior Vice President of Finance, International Development and Investor Relations. This search has taken

Mr. Cooper to China, Singapore, Vietnam, India, Mexico, Brazil, the United Arab Emirates and several other countries. The Company is now most focused on India, Brazil and UAE. Its intention is to team with local well-capitalized builders on a project basis and gradually expand its presence in these burgeoning markets. As it pursues its first investment the Company has spent a great deal of time seeking appropriate partners and markets as it plans its entry.

**Readings:**

- Claessens, Kose, Terrones. Financial Cycles: What? How? When?, IMF WP/11/76 and "How Do Business and Financial Cycles Interact?" IMF WP/11/88, April 2011
- Reinhart & Rogoff. Is the 2007 US Sub-Prime Financial Crisis So Different: An International Historical Comparison, AEA 2008
- McKinsey Global Institute. Mapping Global Capital Markets 2011, Executive Summary, August 2011
- NYT. Vietnam Economic Meltdown, 8-23-2012
- Arbatli, Elig. Economic Policies and FDI Inflows to Emerging Market Economies, IMF Working Paper WP/11/192, August 2011

For reference:

- "Doing Business" and "Investment Climate" IFC, The World Bank Group, 2012
- McKinsey & Co. Urban world: Cities and the rise of the consuming class. 2012

**11/12 Topic: Portfolio Construction for Different Types of Investors**

Countries/Cities

Mix of RE Investments

Partnerships /International Development Investors

Understanding Risk Premia ; Correlation Analysis

Alpha, Beta Strategies

Operational and Execution Issues

**Case: Managing a Portfolio of Publicly Listed International Real Estate Stock. European Investors Incorporated, James E. Rehlaender, Managing Director**

James E. Rehlaender, Managing Director, joined European Investors in 2000. Jim is responsible for the firm's global real estate investment activities and is co-portfolio manager of all global REIT accounts. Jim spent a total of twelve years at La Salle Partners where he developed and marketed their REIT investment activities and was intimately involved in many complex real estate project financing, workouts and investment advisory assignments. Prior to joining European Investors, Jim developed and founded Global Property Advisors with one of the largest German insurance companies. He has been managing international realty securities since 1998, when he established the Global Property Fund, an Irish-domiciled trust. At the outset of his business career, Jim was a partner in a venture capital firm and taught classes in real estate at Northwestern University. He has a BA from the College of William and Mary and an MBA from Northwestern University.

**Readings:**

- Cohen & Steers. Emerging Market Real Estate Securities; Risk /Return Profile and Asset Allocation, April 2011

- JPM. Risks, Returns and Correlations for Global Real Estate Markets, Oct 2007
- JPM. Rise of Cross-Asset Correlations, May 2011
- De Wit, Ivo. International Diversification Strategies for Direct Real Estate, in JREFE (2010) 41:433-457
- JLL. Global Capital Flows Q2. Search for Yield makes real estate attractive. 2012
- Bardhan, Edelstein, Tsang. Global Financial Integration and Real Estate Security Returns, manuscript
- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapter 17

**11/19 Topic: Investors and Investment Formats**

Different types of Investment Strategies; Rationales

Development

Debt

Private Equity; combining funds and direct investment

The developing REIT market; REOCs

**Case: Logistics/Retail Projects in Russia. Multinational Logistics Partnership, Bruce Gardner CFO**

**Multinational Logistics Partnership** is a \$1.5 billion logistics Investment Company established in 2003 in Russia. Mr. Gardner is a principal and co-founder of the firm. MLP is currently moving towards a public market exit and if successful will become the first “REIT type” structure coming out of Russia. Mr. Gardner will discuss his experience in creating a winning investment strategy, developing the business and preparing the exit through capital markets and a “REIT” structure. Prior to establishing MLP, he was a founding member and partner of Renaissance Capital – the largest private investment bank in Russia – where he was head of structured products and CFO from the bank’s inception in 1995. Mr. Gardner first came to Russia in 1994 as a member of the Harvard University advisory team to the Russian government on privatization and restructuring.

**Readings:**

- Gordon Jacques N. The Deleveraging of Global Real Estate, Wharton RE Review, Vol XIV No.1, 2010
- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapters 17 and 18 (for students who did not take REAL 721)
- JPM Asset Management. Infrastructure Investing: Key Benefits and Risks, Insights January 2010

For reference:

- World Economic Forum USA. Paving the Way: Maximizing the Value of Private Finance in Infrastructure, prepared in collaboration with PricewaterhouseCoopers, August 2010
- NAREIT website: <http://returns.reit.com/returns/GlobalReturns.pdf>
- JLL. Global Securities Factsheet, 6-30-10

**11/26 Topic: Project Level Analysis**

Government Involvement at different levels

Approvals/ Permits

Pro-formas, Due diligence  
Risk Return Analysis

**Case: Equity Investments in Affordable Housing Projects in Southern Africa. International Housing Solutions, Soula Proxenos, Managing Partner**

**IHS** is an international company which invests in community-centered affordable housing projects in South Africa and neighboring countries. IHS is the fund manager of a 10-year private equity fund worth more than R1.9 billion, which has been active since 2007. IHS partners with financial institutions, real estate developers, private capital groups and governments, to support the development and construction of affordable housing projects for the sale and rental markets. IHS strives to build viable communities rather than simply building houses, as is exemplified in a number of its projects. Moreover, its investment strategy seeks to diversify across geographies, products, partners and tenures to maximize return and minimize risk.

**Readings**

- Linneman, Peter. RE Finance and Investment; Ch 8 Development Pro forma Analysis § Ch 9, Development Feasibility Analysis (for student who did not take REAL721 or REAL821)
- CBRE. Global Office Development Cycle: where are we now? December 2010

**12/03 Student Presentations**

**Case: Investing in High End Hospitality Projects across Latin America. Makopastreet Financial Advisors-Investors, Andrew Stein, President and CEO,**

**Makopastreet Partners** sources debt and equity financing for luxury and ultra-luxury hotel and mixed-use development projects worldwide. In addition, Makopastreet Partners specializes in investing in, and advising its clients regarding investments in distressed high-end hotel assets and the restructuring of those assets with a focus in North, Central and South America. Andrew B. Stein is President and CEO of Makopastreet Partners, LLC. Prior to forming Makopastreet Partners, Andy Stein was Managing Director in WestLB's Investment Banking Division in New York and was responsible for all Hospitality lending and advisory activities in the Americas.

**Readings:**

- FitchRatings. Latin America: Between Two Giants. Impact of a Potential Renewed US Recession or a Chinese slowdown, October 2011.
- MeridiaCapital. The Latin American Hotel Sector: A Dormant Giant, Executive Summary, 2008