

University of Pennsylvania
The Wharton School

International Real Estate Development and Investment

REAL 890

Fall 2013- Second mini-mester

October 21 to December 2

Mondays 3-6pm -Room JMHH F45

Professor Marja C Hoek-Smit
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Fred Cooper, Toll Brothers, Case Advisor/Lecturer

Office hours Tu 12 to 2
or by appointment
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Course objectives:

This 7 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 rationale of international real estate investing and the challenges of investing in foreign markets;
- the macro factors that influence the performance of real estate markets across countries;
- the nature of international investment portfolios and capital flows, and
- the practical considerations and risk management issues in international investment strategies.

While not a prerequisite, it is advisable to take a Real Estate class prior to taking this class.

Teaching format and structure of the class:

After the introduction to Global Real Estate Development and Investment during the first class, subsequent classes will combine a lecture on specific aspects of global cross-border RE in the first half with *case presentations* in the second half of the class. Cases will be presented by leading executives in charge of major international RE projects or funds. Cases have been selected to cover different types of RE development – residential, office, retail, and logistics - important emerging market countries/continents and different investment strategies. 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 between the lecture and the case presentation. A small number of students will have the opportunity to meet with guest speakers over dinner (first come first serve).

Course Materials:

- There is **no textbook** for this class, but several chapters are included in the required readings from *Real Estate Finance and Investments, Third Edition*, by Linneman. For those students without Real Estate background the entire text is worth reading. Another recommended text is Chapter 24 of the 2013 edition of *Commercial Real Estate Analysis and Investments* by Geltner, Miller, Clayton and Eichholtz.
- **Required readings** (see course schedule) are available in a **course-pack at Study.net**. Readings are frontloaded to the early part of the course in order to create time at the end for your assignment.
- Additional recommended but **optional readings** (see course schedule) will be made available **on canvas**. A list of helpful websites for international RE research and facts will be posted on Canvas as will other supplemental class materials.

- **Class notes will be posted on canvas** before noon on the day of class. Case presentations will be posted before class if available.
- I will post **announcements, updates, clarifications, and assignments** on canvas.

Non-Wharton students will need to apply for a Wharton account in order to get access to the Canvas.

Check out: <http://accounts.wharton.upenn.edu/>

Assignments:

1. **Class feedback.** In order for me to get to know you quickly for this short course, I want you to write a paragraph about yourselves and what you want to get out of the class. After each class you will write a brief take-away from the session and what you would have liked to see more of (or less). This will be 5 percent of your grade.
2. **Short assignments.** There are *3 individual assignments to be completed*. You will be asked to comment on case presentations made in class in a short (max 2 pages) memo that will set out the strengths and weaknesses, and lessons of the case. I will post the assignments on canvas the morning after class. These assignments will have to be **in my box (hard copies) on Friday at noon** or emailed to the TA before that time. You will receive a max of 100 points for the 3 assignments; 33.3 max for each.
3. **Final assignment.** In groups of 4 (you can select your own group and contact us if you cannot find a group) you will conduct an international RE scoping exercise. I will post the assignment on November 18. The final case has to be handed in on the last day of class, Monday, **December 2 at noon** (hard copies) and a soft copy on canvas or to my email. A short PowerPoint presentation has to be included for class presentations on December 2 (15 minutes). 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 5 pages long including graphs and tables. You will receive a maximum of 75 points for this assignment.

For all assignments 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, clear explanations, credible research and data analysis with cited references (30%)
- **Visual aids (final assignment)** == clear, creative and value-added aids rather than 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 (40%)
- **Late cases will not be accepted.**
- I will consider class participation when deciding final grades.

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. If you cannot attend, you have to inform me beforehand. I will have to allow you a make-up assignment if there is a valid reason to miss class.
2. **Laptops, cell phones, iPhones and similar devices may not be used in class.** I realize that some of you may want to take notes on a computer, but it is very disconcerting, particularly for guest

speakers who have travelled to Philadelphia, often from overseas to speak to you, to talk to a group of students who are working on their devices.

3. **Please bring and display your name tents at all times.** Guest speakers like to know who they are talking to.

Advising:

If you have questions related to class topics or more general questions, please see me during office hours or make an appointment. I try not to travel overseas during the teaching term in order to be available. Armel Kitieu will be the TA for the course. He will be able to clarify questions about assignments and logistics and will attend class as well. akitieu@wharton.upenn.edu

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 that 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.

Preliminary Schedule of Case Presentations TBC:

Latin America/other	Brazil/other	Opening new markets; Residential Upscale	Toll Brothers/ Developer	Fred Cooper, Senior VP	10/21
Global	Emerging mrkts/ China	Mixed portfolio investor	European Investors Inc./ Investor	James Rehlaender, Managing Director	10/28
South Asia	India	Office	TBC	TBC	11/04
Sub-Saharan Africa	South Africa/Ghana	Residential Affordable	IHS	Soula Proxenos/ Managing Director	11/11
East Asia	China	Mixed Office/ Residential/Retail	Portman Holdings Inc	Ambrish Baisiwala Chief Executive Officer	11/18
E/C Europe	Russia	Logistics/Retail	Multinational Logistics Partnership/Logistics-Retail Investment Co	Bruce Gardner, Principal	11/25

10/21 Topic: Global Real Estate Markets / Rationales for Cross Border RE Investing

Global Real Estate Capital Markets: size, flows

Facilitators of Real Estate Globalization: public markets, professionalization

Types of Global Real Estate Investors and Developers

Why international? Why emerging markets?

Rewards of International RE Investing

Risks and Costs of Cross-border Investing: Transaction and information costs, Political risk, Transparency, Currency risk, Liquidity, Reputation

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

Toll Brothers, Inc. (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 Brazil. 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. Fred joined Toll Brothers in 1993. Prior experience included 5 years with NYC's economic development bank and several in low-income housing. He is a graduate of Brown University and has a Master of Public Policy from Harvard's Kennedy School of Government

Readings:

- Eichholtz, Gugler, Kok. Transparency, Integration, and the Cost of International Real Estate Investment, in Journal of Real Estate Finance and Economics, 2011
- Eichholtz, Koedijk and Schweitzer, Global Property Investment and the cost of International Diversification, in Journal of International Money and Finance, 2001
- Jones Lang Lasalle. RE as Global Asset Class, 2013
- 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. Real Estate Transparency, Back on Track, 2012

For reference:

- JLL. Global Market Perspective, Q1 2013
- JLL. Mapping the World of Transparency. 2012
<http://www.joneslanglasalle.com/GRETI/en-gb/Pages/Global-Transparency-Index-Executive-Summary.aspx>

10/28 Topic: Portfolio Construction: Returns and Diversification

Return Opportunities: structural and cyclical

International Diversification by region and type of real estate; cycles again

Correlation Analysis; public versus private markets

Understanding Risk Premia; market risk, specific risk

Alpha, Beta Strategies

Case: Managing a Portfolio of Publicly Listed International Real Estate Stocks. 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 Lasalle 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:

- JLL. Global Capital Flows Q2, 2013. Search for Yield makes real estate attractive.
- Bardhan, Edelstein, Tsang. 2008 Global Financial Integration and Real Estate Security Returns, manuscript – show that increasing international openness of RE markets leads to lower excess returns relative to the risk free rate, even though this openness may also increase rents and asset prices.
- Yunus, Nafeesa. Increasing Convergence Between US and International Securitized Property Markets. Real Estate Economics, Fall 2009
- Hoesli and Oikarinen, 2012. Are REITs Real Estate? Evidence from International Sector Data. Swiss Finance Institute Research Paper 12-15
- De Wit, Ivo. International Diversification Strategies for Direct Real Estate, in JREFE (2010) 41:433-457
- Deutsche Bank. China Property: Long-term margin downtrend becoming more obvious. 26 August 2013

For reference

- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapters 18 (for students who did not take REAL 721)
- NAREIT website: <http://returns.reit.com/returns/GlobalReturns.pdf>
- JLL. Global Securities Factsheet, 6-30-10
- Kroencke and Schindler. International Diversification with Securitized Real Estate and the Veiling Glare from Currency Risk, JIMF, 2012
- Colliers. 2013 Global Investment Sentiment.

11/04 Topic: Macro-Level Analysis for Direct Investment

Demand analysis

Property Market fundamentals

Property Market: Cyclical Rationales

Supply constraints real side (land, infrastructure, finance)

Risk Analysis

Case: Office Development in India.

- 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 JLL
- CBRE. Global Office Development Indices Q3 2012
- CBRE. Prime Office Occupancy Costs; Office Markets in Transition. July 2012
- Revolution and Real Estate: Cairo, Pulse, April 2011 on canvas
- NYT. Vietnam Economic Meltdown, 8-23-2012; NYT. Turkey Slowdown 8-20-2013. On canvas

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

11/11 Topic: Going International: Exporting Managerial or Other Expertise

Different Types of Investment Strategies; Rationales

International Transfer of Expertise

Operational and Execution Issues

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:

- McKinsey Global Institute. Financial Globalization. 2013
- Arbatli, Elig. Economic Policies and FDI Inflows to Emerging Market Economies, IMF Working Paper WP/11/192, August 2011
- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapters 17 on Equity Funds (for students who did not take REAL 721)
- Gordon Jacques N. The Deleveraging of Global Real Estate, Wharton RE Review, Vol XIV No.1, 2010

For reference:

- JLL. Twenty African Cities Emerge as Next Frontier.2013

11/18 Topic: Project Level Analysis; Weaknesses and Opportunities in Emerging Markets

Approvals/ Permits

Pro-formas, Due diligence

Structures for Development Finance

Risk Return Analysis

Exit Strategies

Case: China Mixed-use Real Estate Development in Shanghai and Hongqiao. Mr. Ambrish Baisiwala, CEO, Portman Holdings

Portman Holdings is a vertically integrated real estate development, investment and management company with over sixty years of experience, an extensive global network, and a proven track record with leading financial institutions. Since inception, the company has achieved success by delivering well-conceived, viable real estate developments that produce strong financial returns. Portman Holdings has developed approximately 50 million square feet

of premium real estate across three continents, costing \$6 billion at the time they were constructed. Mr. Baisiwala will discuss two recent mixed-use projects in China, one successfully implemented and another one that did not close.

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)

11/25 Topic: The role of Government in the Real Estate Sector

Government Involvement at different levels
Policies
Subsidies
Taxation
Regulation
Mexican Case study: Demise of Large Developers

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. The firm is currently exploring entry into the African market. 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:

- JPM Asset Management. Infrastructure Investing: Key Benefits and Risks, Insights January 2010
- World Economic Forum USA. Paving the Way: Maximizing the Value of Private Finance in Infrastructure, prepared in collaboration with PricewaterhouseCoopers, August 2010

Further Readings on Mexico Case:

- Goldman Sachs. Mexico Real Estate Developers. July 2013
- City. Mexican homebuilding. June 2013
- WSJ. Mexico Housing Bust Bruises Investors. July 2013

12/02 Student Presentations