

University of Pennsylvania
The Wharton School

International Real Estate Development and Investment

REAL 890

Fall 2014- Second mini-mester

October 20 to December 1

Mondays 3-6pm -Room JMHH F45

Professor Marja C Hoek-Smit
1462 Steinberg Hall-Dietrich Hall

mhoek@wharton.upenn.edu

Fred Cooper, Toll Brothers, Case Advisor/Lecturer

Office hours Tu 12 to 2
or by appointment

215-898-3313

TA, TBA

Course objectives:

This 7 weeks course will expose students to the world of cross-border real estate development and investment, with a focus on emerging market economies. It will teach: the rationale of international real estate investing and the challenges; 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. This class does not teach basic real estate investment, but assumes students come with such knowledge.

Undergrad students must have taken Real 209 which is a prerequisite for the course.

Teaching format and structure of the class:

After an 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 development and 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. The entire textbook is worth reading especially for those with limited Real Estate background. Another required text is Chapter 24 and 25 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 leave time for your final 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** at the latest 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 and participation.** In order for me to get to know you quickly for this short course, I want you to write a paragraph about yourself and what you want to get out of the class. After some classes I may ask you to write a brief take-away from the session and what you would have liked to see more of (or less). This and class participation 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 at the Real Estate Department (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 me or the TA if you cannot find a group) you will conduct an international RE scoping exercise for a real estate development project. I will post the assignment on November 17. The final case has to be handed in on the last day of class, Monday, **December 1 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 1 (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 90 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 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.**

Class Etiquette:

1. **Attendance and class participation are critical in this case oriented class (see above 5% of the grade).** Assignments are based on cases that are presented during class and student participation is 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. The TA for the course will be able to clarify questions about assignments and logistics and will attend class as well.

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:

Global	Asia,/LatAm/ MENA	Preparing for Global Expansion; Residential Upscale	Toll Brothers/ Developer	Fred Cooper/SVP	10/20
Global	Emerging mrkts	Mixed portfolio investor	Northwood Securities	James Rehlaender, CEO	10/27
South /East Asia	India/ China	Office/ Residential/Mixed	Portman Holdings Inc	Ambrish Baisiwala/ CEO	11/03
Sub-Saharan Africa	South Africa/Ghana	Residential Affordable	IHS	Soula Proxenos/ Managing Director	11/10
Latin America	Brazil	Office/Hotel/Residenti al, Industrial	GTIS	Josh Pristaw/Senior Managing Director	11/17
East/Central Europe	Russia Mexico/Egypt	Logistics/ Retail	Multinational Logistics Partnership/Logistics- Retail Investment Co	Bruce Gardner/Principal	11/24

10/20 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. . 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
- Jones Lang Lasalle. RE as Global Asset Class, 2013 -canvas
- Zell, Sam. Evolution Revolution, Wharton RE Review, Vol. XV, 1 2011-canvas
- Gordon, Jacques. The Surprises of International Real Estate, Wharton RE Review, Vol. XV, 1, 2011-canvas

For reference:

- Eichholz, Koedijk and Schweitzer, Global Property Investment and the Cost of International Diversification, in Journal of International Money and Finance, 2001
- JLL. Global Market Perspective, Q3 2014- canvas
- JLL. Mapping the World of Transparency. 2014:
<http://www.jll.com/greti/transparency/key-findings>

10/27 Topic: Portfolio Construction: Returns and Diversification

Return Opportunities: structural and cyclical
International Diversification by region and type of real estate
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. James E. Rehlaender, Northwood Securities, CEO.

James E. Rehlaender, CEO Northwood Securities and former Managing Director, of EII Capital Management, where he was responsible for the firm's global real estate investment activities and was 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 EII, 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.

Assignment 1: Comment on Case by Northwood Securities.; due Friday October 31, 12 noon

Readings:

- International Real Estate Investment, Chapter 24 in *Commercial Real Estate Analysis and Investment* by Geltner, Miller, Clayton, Eichholtz, 2014.
- 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.
- De Wit, Ivo. International Diversification Strategies for Direct Real Estate, in JREFE (2010) 41:433-457- library
- Deutsche Bank. China Property: Long-term margin downtrend becoming more obvious. 26 August 2013 -canvas

For reference

- Yunus, Nafeesa. Increasing Convergence between US and International Securitized Property Markets. Real Estate Economics, Fall 2009
- Kroencke and Schindler. International Diversification with Securitized Real Estate and the Veiling Glare from Currency Risk, JIMF, 2012
- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapters 18 (for students who did not take REAL 721) - canvas
- NAREIT website: <http://returns.reit.com/returns/GlobalReturns.pdf>

11/03 Topic: Macro-Level Analysis for Direct Investment

Demand analysis

Property Market fundamentals

Property Market: Cyclical Rationales

Capital Markets

Supply constraints real side: land, infrastructure, finance

Government Policies: Subsidies, Taxation, Regulation

Risk Analysis

Case: India residential development. 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 residential, mixed-use and office projects in India and China, some successfully implemented and others that did not close.

Assignment 2: Comment on Case by Portman Holdings; due Friday Nov. 7, noon

Readings:

- Real Estate System. Ch 2 in *Commercial Real Estate Analysis and Investment*, Geltner, Miller, Clayton, Eichholtz – copies in library
- 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
- Financial Times. Blackstone Builds Indian Real Estate Empire. 1-7-2014

For reference:

- Data Challenges in Measuring Real Estate Periodic Returns. Ch. 25 in *Commercial Real Estate Analysis and Investment*, Geltner, Miller, Clayton, Eichholtz
- Mueller, Paige, Ball, Asli. International Investing: A Global Demographic Primer. JREPM 2006 -library
- “Doing Business” and “Investment Climate” IFC, The World Bank Group, 2012
www.doingbusiness.org <https://www.wbginvestmentclimate.org>
- McKinsey & Co. Urban World: Cities and the rise of the consuming class. 2012

11/10 Topic: Investment Formats

REITS and REOCS

Debt

Private Equity: Comingled and Direct

Different Types of Direct Development Strategies; Rationales

Operational and Execution Issues

Case: Equity Investments in Affordable Housing Projects in Sub-Saharan 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.

Assignment 2: Comment on Case by International Housing Investment; due Nov.14, noon

Readings:

- 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:

- Hoesli and Oikarinen, 2012. Are REITs Real Estate? Evidence from International Sector Data. Swiss Finance Institute Research Paper 12-15 – web/canvas

- Arbatli, Elig. Economic Policies and FDI Inflows to Emerging Market Economies, IMF Working Paper WP/11/192, August 2011
- Other websites: INREV, ANDREV, PREA, EPRA, APRA, ILPA Standards, NAREIT
- EMPEA Sub-Saharan Africa Data Insight 2013
- McKinsey Global Institute. Financial Globalization. 2013
- JLL. Twenty African Cities Emerge as Next Frontier. 2013 - canvas

11/17 Topic: Project Level Analysis; Weaknesses and Opportunities in Emerging Markets

Property rights and registration
 Approvals/ Permits
 Pro-formats, Due diligence
 Structures for Development Finance
 Risk Return Analysis
 Exit Strategies

Case: Office, Hotel and Residential Developments in Brazil. GTIS Partners, Joshua Pristaw, Senior Managing Director

GTIS Partners is a global real estate investment firm headquartered in New York with offices in Los Angeles, San Francisco and Sao Paulo, Brazil. GTIS Partners was founded in 2005 and currently has approximately \$3 billion of assets under management. The firm pursues opportunistic real estate investments through direct equity investment and non-traditional lending activities. To date, the firm has committed capital to residential, retail, industrial, office, hotel, and mixed-use projects in the US and Brazil and is among the largest real estate private equity companies in Brazil. Josh Pristaw is a Senior Managing Director of GTIS and a member of the General Partner's Investment Committee. Mr. Pristaw is a co-founder of GTIS, having joined GTIS in 2005, and has more than 15 years of real estate experience. His primary responsibilities include running the firm's Brazil business

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) - canvas

11/24 Topic: The different role of Government in the Real Estate Sector in Emerging Markets

Government Involvement at different levels
 Policies/Subsidies
 Taxation
 Regulation
 Cases: Mexico, Demise of Large Developers; Egypt, Transition Politics and Real Estate

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:

- Mexico Homebuilders Assessments - canvas
- JLL Revolution and Real Estate: Cairo, Pulse, April 2011 - canvas

12/01 Student Presentations
Final Group Project Assignments due