

University of Pennsylvania
The Wharton School

International Real Estate Development and Investment

REAL 890

Fall 2015- Second mini-mester

October 19 to November 30

Mondays 3-6pm -Room JMHH F45

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

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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 emerging market economies. Topics will emphasize the importance of strategy and implementation in cross-border real estate investment, and include: the rationale, opportunities and risks of international real estate investing; the macro factors that influence the performance of real estate markets across countries; market specific factors that impact RE investment performance (property rights, taxes, transparency, planning procedures); the qualitative aspects of identifying and achieving successful projects; the growing market for international RE securities and strategies for portfolio management. This class does not teach basic real estate investment and development, and assumes that 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 of the class and an international *case presentations* in the second half. 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, hospitality and logistics - important emerging market countries/continents and different development and investment strategies. Student participation is an integral part of the class and assignments are focused on presented case studies of cross-border investment decisions.

The class will start promptly at 3pm and end 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 and on canvas**. Readings are a mixture of analytical and descriptive articles and are frontloaded to the early part of the course in order to leave time for your final assignments.
- **Reference reports and links** are placed under **“For reference”** on the course schedule and 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 presenters make their notes 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 before the first class. After some classes I will ask you to write a brief take-away from the session and what you would have liked to see more of. These and class participation will be 5 percent of your grade.
2. **Short assignments.** There are 2 *individual assignments* which will focus on specific emerging market type analyses (qualitative and quantitative), and the estimation of risk factors and the pricing of such risks for ex-ante risk-adjusted rates-of-return. These assignments may be related to case presentations made in class. 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**. You will receive a max of 100 points for the 2 assignments; 50 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 16. The final case has to be handed in on the last day of class, Monday, **November 30 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 November 30 (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, excluding 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 and discussion of financial metrics used in evaluating the project (40%)
- **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 (30%)
- **Late cases will not be accepted.**

Class Etiquette:

1. **Attendance and class participation are critical in this case oriented class (5% of the grade).** Some 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 sometimes 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. 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:

Global	Asia,/LatAm/ MENA	Preparing for Global Expansion; Upscale Residential	Toll Brothers/ Developer	Fred Cooper/SVP	10/26
Sub-Saharan Africa	South Africa/Ghana	Residential Affordable	IHS	Soula Proxenos/ Managing Director	11/02
South /East Asia	India/ China	Office/ Residential/Mixed	Portman Holdings Inc	Ambrish Baisiwala/ CEO	11/09
Latin America	Brazil	Hospitality Office and Mixed	GTIS	Joshua Pristaw, Senior Managing Director	11/16
Global	Emerging markets	Mixed portfolio investor	Cohen Steers	Jason Yablon, Senior Vice President and Global Portfolio Mng	11/23

10/19 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? Understanding Global Linkages

Rewards of International RE Investing

Risks and Costs of Cross-border Investing: transaction and information costs, political risk, transparency, currency risk, liquidity, reputation

Readings:

- Eicholtz, Gugler, Kok. Transparency, Integration, and the Cost of International Real Estate Investment, in Journal of Real Estate Finance and Economics, 2011
- IMF 2015 Spillover Report- link and canvas
- MSCI. Real Estate Market Insights- Global market highlights. July 2015 – canvas
- 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
- PWC. Emerging Trends in Real Estate: Global outlook for 2015- canvas
- Prudential. The Wealth of Cities: The investment implications of urban expansion Feb 2015 - canvas
- JLL. Mapping the World of Transparency. 2015:
<http://www.jll.com/greti/transparency/key-findings>
<http://www.jll.com/greti/transparency/technical-note>

10/26 Topic: Macro-Level Analysis for Direct Investment

Demand analysis for different types of RE
 Property Market fundamentals
 Property Market: Cyclical Rationales
 Capital Markets
 Supply constraints real side: land, infrastructure, finance
 Government Policies: Subsidies, Taxation, Regulation
 Risk Analysis

Case: Opening New Markets; the Case of Residential Development. 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

Assignment 1: For a RE type of your choice, how would you project 5 year growth in an EM context? How does your analysis differ from a US case?

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 –library
- Mueller, Paige, Ball, Asli. International Investing: A Global Demographic Primer. JREPM 2006 -library
- “Doing Business” and “Investment Climate” IFC, The World Bank Group, 2015
www.doingbusiness.org <https://www.wbginvestmentclimate.org>
- McKinsey & Co. Urban World: Cities and the rise of the consuming class. 2012
- World Economic Forum: The Global competitiveness Report 2014-2015
http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf

11/02 Topic: Investment Formats

Developer equity/ Types of Debt

Private Equity: Comingled and Direct

Different Types of Direct Development/Project Investment 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, and is in the process of raising a second fund. 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. Soula will speak about specific projects under the first fund as well as on the challenges of raising a fund and attracting investors.

Readings:

- 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
- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapters 17 on Equity Funds (for students who did not take REAL 721)
- <https://next.ft.com/f7f52c00-169d-11e5-b07f-00144feabdc0>

For reference:

- 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
- McKinsey Global Institute. Studies on Affordable Housing (2014) and Financial Globalization (2013) -link
- JLL. Twenty African Cities Emerge as Next Frontier.2013 – canvas
- PWC. Real Estate: building the future of Africa. March 2015 –link, canvas

11/09 Topic: Micro-level/Project Level Analysis; Weaknesses and Opportunities in Emerging Markets

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

The Role of Government in the Real Estate Sector in Emerging Markets

Government Involvement at different levels
Policies/Subsidies
Taxation
Regulation
Cases: Mexico, Brazil, Indonesia, Egypt, China

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.

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
- Citi. MCMV program under threat (Brazilian Homebuilders). July 2015- canvas

For Reference:

- Mexico Case: Homebuilders- canvas
- JLL Revolution and Real Estate: Cairo, Pulse, April 2011 – canvas
- Recent articles from WSJ, FT- on canvas

11/16 Topic: Balancing Risks and Rewards: Putting it all together

Comparing domestic and international returns

Domestic: Vary by property type, Geography, Life cycle/strategy

Cross-border: Compensation for Transaction costs, Tax liabilities, Currency Risk, Transparency, JV costs, others

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:

- IMF. Collateral Damage: Dollar Strength and EM Growth, July 2015 – canvas
- Recent articles from the WSJ, FT- on canvas

Assignment 2: Adjust a US project Pro-forma for cross-border risks and costs in a RE project in an emerging market country.

11/23 Topic: Growing Market for RE Securities: Portfolio Construction

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

REITS and REOCS- International corporate structures/taxation systems

Case: Managing a Portfolio of Publicly Listed International Real Estate Asset-Targeted Funds. Jason Yablon, Cohen Steers, Senior Vice President and Global Portfolio Manager

Jason Yablon, is responsible for the management of over \$50billion of real estate asset-targeted funds at Cohen Steers. He invests in Public Real Estate Equities. He has 14 years of experience. Prior to joining Cohen & Steers in 2004, Mr. Yablon was a sell-side analyst at Morgan Stanley for four years, focusing most recently on apartment and health care REITs. Mr. Yablon has a BA from the University of Pennsylvania. He is based in New York.

Readings:

- Hoesli and Oikarinen, 2012. Are REITs Real Estate? Evidence from International Sector Data. Swiss Finance Institute Research Paper 12-15 – web/canvas
- 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 - canvas
- Evercore ISI. Hola de Nuevo- Mexico Reits. March 2015- 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>

11/30 Student Presentations
Final Group Project Assignments due