

University of Pennsylvania
The Wharton School

International Real Estate Development and Investment

REAL 890

Fall 2017- Second mini-mester

October 26 to December 7

Thursdays 3-6pm -Room JMHH F60

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

Office hours Tu 12 to 3
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. 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 International Real Estate Development and Investment during the first class, subsequent classes will combine a lecture on specific aspects of emerging market RE in the first half of the class and an international *case presentation* in the second half. Cases will be presented by leading executives in charge of major international RE projects or funds and have been selected to cover different types of RE development – residential, office, retail, hospitality and logistics - different emerging market countries/continents and different development and investment strategies. 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; and from *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.
- **Reference reports and links** are placed under **“For reference”** on the course syllabus 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.
- **Announcements, updates, clarifications, and assignments** will be posted on canvas.

Assignments:

1. **Class feedback and participation.** In order for me to get to know you quickly, I want you to write a paragraph about yourself and what you want to get out of the class before the first class (i). 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 (ii). Student participation, i.e. class attendance, good comments and questions, is an integral part of the class, and some assignments are focused on an analysis of presented case studies (iii). Feedback and class participation will be 10% of your grade.
2. **Short assignments.** There are 2 *individual assignments* which will focus on specific emerging market 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 or lectures. I will post the assignments on canvas the morning after the specific class. These assignments will have to be **in the box at my office door at the Real Estate Department (hard copies) on Monday at noon**. You will receive a max of 100 points for the 2 assignments; 50 max for each and these will be 50% of your grade.
3. **Final assignment.** In groups of 4 (you can select your own group or 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, **Thursday, December 7 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 7 (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- 40% of your grade.

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.** Students are expected to attend every class in full. Some assignments are based on cases that are presented during 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. Coming late or leaving early is unacceptable. If you must leave early you have to inform the teacher/presenter.
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. 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 for each class are related to the specific focus of the case studies presented in the second part of that class.

Preliminary Schedule of Case Presentations:

Region	Countries	Type of Real Estate	RE Investment Firm	Presenter	Date
Emerging markets	Europe/Asia/ LatAm/MENA; China-US case	Preparing for Global Expansion/ US –China JV; Luxury Residential	Toll Brothers/ Developer	Fred Cooper/SVP	11/02
Sub-Saharan Africa	Kenya case, Nigeria, Ghana, Zambia	Large Scale Satellite Cities/Industrial/Residential/Educational	Rendeavour/ Developer, Operator	Preston Mendenhall/ Head Corporate Affairs	11/09
Latin America	Mexico, Columbia, Peru	Retail, Residential	TC Latin America Partners/ Equity fund	Gregorio Schneider/ Founder, Managing Partner, CIO	11/16
South /East Asia	India	Hotel, Residential, Mixed Use	Taurus Investment Holdings/ Investor, Developer, Operator	Ajay Prasad, Country Managing Director-India	11/21
Global	Emerging markets	Mixed portfolio investor	Northwood Securities/ RE Securities	Jim Rehlaender/ CEO	11/30

10/19 Topic: International Real Estate Markets / Rationales for Cross Border RE Investing

Global, International, Cross-border Real Estate Markets: size, flows
 Facilitators of Real Estate Globalization: public markets, professionalization
 Types of International Real Estate Investors and Developers
 Why International? Why emerging markets? Understanding International Linkages
 Rewards of International RE Investing
 Risks and Costs of International 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 –study.net
- MSCI. Real Estate Market Size- June 2017 – canvas
- Jones Lang Lasalle. Global Market Perspective, Q3 2017; Global Capital flows Q2, 2017; RE as Global Asset Class, 2013 –canvas;
- Gordon, Jacques. The Surprises of International Real Estate, Wharton RE Review, Vol. XV, 1, 2011-canvas

For reference:

- World Bank 2016 Spillover Report-canvas
- PGIM. Trends for 2017- Global RE Trends-December 2016 - canvas
- JLL. Taking Real Estate Transparency to the Next Level, 2016 - canvas
<http://www.jll.com/Research/Global-Real-Estate-Transparency-Index-2016.pdf?0afa55a6-cc8f-46f6-9f0c-c15d8958f3dd>

10/26 Topic: The Role of Government in the Real Estate Sector in Emerging Markets; Corruption and Real Estate Investment

Government Involvement at different levels

Policies/Subsidies

Taxation

Regulation

Impact of Corruption on direct real estate investment

Cases: Sub-Saharan Africa, Mexico, Brazil, Indonesia, Egypt, China

Readings:

- Sing, Foo Tien and Wang. Corruption and Home Bias in Global Real Estate Investment. July 2017 - canvas
- Mexico Case: Homebuilders- canvas

11/02 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

Risk Analysis

Case: Opening New Overseas Markets and Partnering with Chinese Developers on US developments; the Case of Residential Development. Toll Brothers, Fred Cooper, Senior VP.

Toll Brothers, Inc. (Tollbrothers.com), a Fortune 500 company, 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. While the company has continued its search, one unexpected but successful by-product has been a partnership with one of the Chinese companies it met, on over \$500 million of deals in the U.S.

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:

- Real Estate System. Ch 2 in *Commercial Real Estate Analysis and Investment*, Geltner, Miller, Clayton, Eichholtz – copies in library

For reference:

- Data Challenges in Measuring Real Estate Periodic Returns. Ch. 25 in *Commercial Real Estate Analysis and Investment*, Geltner, Miller, Clayton, Eichholtz –library
- "Doing Business" and "Investment Climate" IFC, The World Bank Group, 2017 www.doingbusiness.org <https://www.wbinvestmentclimate.org>
- WEF. Understanding the Commercial Real Estate Investment Ecosystem; An Early Warning System Prototype. February 2016 -canvas

Assignment 1: For a RE type of your choice, how would you project 5 year growth in an EM context?

11/9 Topic: Project Level Analysis; Opportunities and Constraints in Emerging Markets

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

Case: Sub-Saharan Africa large scale mixed use urban developments. Rendeavour, Preston Mendenhall, Head Corporate Affairs.

Rendeavour is Africa's leading urban developer. It owns more than 30,000 acres (12,000 ha) of land in the urban growth trajectories of major cities in Kenya, Ghana, Nigeria, Zambia, and the Democratic Republic of Congo. The company works in partnership with world-class experts, local developers, governments and local communities, to create large-scale, mixed-use, mixed-income, satellite cities. Rendeavour's developments are designed as integrated live-work-play urban environments, free of the infrastructure deficits of neighboring city centers. They act as catalysts for growth along the corridors that connect them to the city.

Mr. Mendenhall has more than 20 years' experience in emerging markets, including four years at Rendeavour. For six years, he was Director of Communications and Vice President for Strategy of Russian Standard, Russia's leading global consumer brand with interests in financial services and alcohol beverage production and distribution. From 1993-2006, Preston was a producer and correspondent for NBC News, covering global events in the Soviet successor states, Europe, Central and South Asia, Africa and the Middle East.

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)

- Prudential. The Wealth of Cities: The investment implications of urban expansion Feb 2015 - canvas

For Reference:

- IMF, Sub-Saharan Africa: Restarting the Growth Engine. April 2017
- JLL. Twenty African Cities Emerge as Next Frontier. 2013 – canvas
- PWC. Real Estate: building the future of Africa. March 2015 –link, canvas

Assignment 2: Assess Rendeavour's business model and presented project; risks and returns. Assess major differences with similar projects in a US context.

11/16 Topic: Investment Formats

Developer equity/ Types of Debt
 Private Equity: Comingled and Direct
 Different Types of Direct Development Strategies; Rationales
 REITS and REOCS
 Operational and Execution Issues

Case: Equity investments in Retail and Residential Developments in Columbia, Peru and Mexico. TC Latin America Partners, Gregorio Schneider, Managing Partner and CIO

TC Latin America Partners is an alternative asset management firm headquartered in New York with offices in Bogota, Lima and Mexico City. The firm manages real estate funds investing in residential, commercial and industrial projects in Colombia, Peru and Mexico. TC Latin America Partners reached a final close on its second fund, Terranum Capital Latin America Real Estate Fund II on December 2nd, 2016, raising US\$268 million in commitments. Combined with its predecessor fund, this brings the firm's total assets under management to over US\$500 million.

Gregorio Schneider is the Founder, Managing Partner and Chief Investment Officer of TC Latin America Partners. Prior to forming TC Latin America Partners, Mr. Schneider was Managing Director and Head of Emerging Markets at Och-Ziff Capital Management. During his tenure at Och-Ziff, Mr. Schneider was responsible for building the firm's capabilities, strategic relationships and investment portfolio in Latin America and Eastern Europe. Prior to joining Och-Ziff, Mr. Schneider was the Portfolio Manager responsible for Emerging Markets special situation investments at The Rohatyn Group, and also worked at Spinnaker Capital, Credit Agricole Indosuez and the real estate division of Banamex. Gregorio has served on the boards of various Latin American companies and has been recognized by the World Economic Forum for his work with developing countries. He holds a B.A. in Business Administration from the Instituto Tecnológico Autonomo de Mexico (ITAM) and received his M.B.A. from Columbia University Business School.

Readings:

- Institutional Limited Partners Organization. Private Equity Principles 2011
- De Wit, Ivo. International Diversification Strategies for Direct Real Estate, in JREFE (2010) 41:433-457- library
- JPM Brazil Real Estate 101, 2016-canvas

- Linneman, Peter. Real Estate Finance and Investment, 3d edition, 2011; chapters 17 on Equity Funds (for students who did not take REAL 721) - canvas

For reference:

- Websites: AFIRE, INREV, ANDREV, PREA, EPRA, APRA, ILPA Standards, NAREIT
- <https://ilpa.org/best-practices/overview-and-history/>
- PWC Compare and contrast: Worldwide Real Estate Investment Trusts (REIT), July 2017
- MSCI EM Real Estate index <https://www.msci.com/documents/10199/6300736d-b23e-466d-af46-2c0df2a98ddc>

11/21!! Topic: Balancing Risks and Rewards: Putting it all together

Comparing domestic and international returns

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

Case: Direct Investment in India, Taurus Downtown TechnoPark- Offices, Shops and Hotel. Taurus Investment Holdings, Ajay Prasad, Managing Director

Taurus entered India, its newest market, in 2012. India is today the fastest growing large economy in the world with a rapidly growing urban population and an expanding middle class, presenting ideal conditions for real estate investment. Taurus is currently working on its first Indian project in Trivandrum, the capital of the Indian state of Kerala. The 5.5 Million square feet, mixed-use project will combine office, retail, hospitality and leisure space. Taurus sees incredible potential in India and plans to invest over \$250 Million over the next three to five years.

As Country Managing Director of India, Ajay oversees acquisition, financing, development and operations of projects in India. An alumnus of the real estate development program at MIT and the Indian Institute of Management, he brings extensive experience in the Indian real estate business to Taurus having supervised the acquisition and development of residential, hotel and mixed use projects worth over \$1 Billion. Ajay also has extensive experience in the public private development domain and in infrastructure projects.

Readings:

- Obstfeld, M et al A Tie That Binds: Revisiting the Trilemma in Emerging Market Economies. IMF WP June 2017
- PWC. Emerging Trends in RE , Asia Pacific 2017
- JPM. China RE 2016
- Deutsche Bank. China Property: Long-term margin downtrend becoming more obvious. 26 August 2013 –canvas

For reference:

- World Bank. Sustaining Resilience East Asia and Pacific Economic Update. June 2017
- McKinsey. Voices on Infrastructure: Insights on Project Development and Finance. March 2017
- JLL. China Logistics. May 2016

11/30 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
Currency hedging
REITS and REOCS- International corporate structures/taxation systems

Case: Building a Global Real Estate Investment Fund in turbulent times. Northwood Securities LLC, James Rehlaender, CEO

James E. Rehlaender, Chief Executive Officer of Northwood Securities LLC, is an industry veteran with over 25 years' experience in global real estate securities investment management. Mr. Rehlaender started Northwood Securities in 2014 in partnership with Northwood Investors LLC which is a highly regarded private equity investment and management firm investing in the real estate sector in the US and Europe. Northwood Securities invests in Real Estate securities with a focus on emerging market countries such as Brazil, Argentina, Indonesia, Thailand and China and the Middle East.

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, On-course Learning, 2013 – study.net
- 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

- I.B. Botson. Commercial Real Estate: the Role of Global Listed RE Equities in a Strategic Asset Allocation. NAREIT. 2006
- 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>

12/07 Student Presentations
Final Group Project Assignments due