

University of Pennsylvania
The Wharton School

International Real Estate Development and Investment

REAL 890

Fall 2018- Second mini-mester

October 18 to December 6

Thursdays 3-6pm -Room JMHH F60

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 3
or by appointment
215-898-3313
TA: TBA

Course objectives:

This half-semester 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, and include: the rationale, opportunities, risks and risk management strategies of international real estate investing; the macro factors that influence the performance of real estate markets across countries; market specific factors that impact RE sector performance (property rights, taxes, transparency and the rule of law, 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 emerging market RE projects or funds and have been selected to cover different types of RE development – residential, office, retail, hospitality and logistics - different countries/continents and different direct and indirect investment strategies. The last class will be dedicated to group presentations.

Course Materials:

- **Textbook:** Several chapters from *Real Estate Finance and Investments, Third Edition*, by Linneman; and from *Commercial Real Estate Analysis and Investments* by Geltner, Miller, Clayton and Eichholtz or included in required or supplemental readings. **On reserve and in Study.net.**
- **Other required readings:** In the syllabus and available in the **course-pack at Study.net and on canvas**. Readings are a mixture of analytical articles and industry assessments.
- **Supplemental class materials:** In the syllabus and available **on canvas**. A list of helpful websites for international RE research and facts will be posted on Canvas.
- **Class notes:** Posted on canvas before noon on the day of class, including case presentations if presenters make their notes available.
- **Announcements, updates, clarifications, and assignments:** posted on canvas.

Assignments:

1. **Class feedback and participation.** 1) 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. Email to my personal email. (ii) Student participation, i.e. class attendance and participation is an integral part of the class; at least one assignment is focused on an analysis of a presented case study. Feedback and class participation will be 10% of your grade.
2. **Individual assignments.** There are 2 *individual assignments* which focus on specific emerging market analyses (qualitative and quantitative), the estimation of risk factors and the pricing of such risks for ex-ante risk-adjusted rates-of-return. These assignments will be related to case presentations or lectures and I will post them on canvas the morning after the related class. These assignments will have to be **in the box at the Real Estate Department (hard copies) on the following 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 15. The final case has to be handed in on the last day of class, **Thursday, December 6 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 6 (15 minutes). 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 (40%)
- **Research, subject knowledge and resources** == demonstrated expertise, clear explanations, credible research and data analysis with cited references (40%)
- **Visual aids (final assignment) and delivery** == clear, creative and value-added aids rather than a random selection of PowerPoint slides (20%)

Late cases will not be accepted.

Class Etiquette:

1. **Attendance.** Students are expected to attend every class in full (I will take attendance). Coming late or leaving early is unacceptable. If you must leave early you have to inform the teacher/presenter. Some assignments are based on cases that are presented during class. Only if you have a valid reason to miss class will I allow students to make-up an assignment with another case. I do not videotape lectures since guests speak more freely when they are not recorded.
2. **Laptops, iPhones and similar devices may not be used in class!** I realize that some of you may want to take notes and you can do so on a tablet that is flat on the desk. Computer screens are distracting to other students. Guest speakers who have travelled to Philadelphia often from overseas to speak to you are disturbed if they have 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:

Contact me with any questions you may have whether related to class topics or more general questions on EM real estate. I will have office hours from 12 to 3 on Tus (1462 SH-DH) or by appointment and answer emails promptly. I will be available flexible hours to meet with each group during the last 2 weeks of the course. 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	10/25
Sub-Saharan Africa	South Africa, Ghana, Zambia	Residential, Ownership and Rental	International Housing Solutions	Pamela Lamoreaux, CFO	11/01
Latin America	Mexico, Columbia, Peru	Infrastructure, Emission Towers	TC Latin America Partners/ Equity fund	Gregorio Schneider/ Founder, Managing Partner, CIO	11/08
South /East Asia	India	Hotel, Office, Mixed Use	Taurus Investment Holdings/ Investor, Developer, Operator	Ajay Prasad, Country Managing Director-India	11/15
Global	Emerging markets	Mixed portfolio investor	Northwood Securities/ RE Securities	Jim Rehlaender/ CEO	11/29

10/18 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, Risks and Costs of International RE Investing: Overview

Guest: Dr. Jasper J Hoek, Chief Emerging Markets, Federal Reserve Board

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 2018 – canvas
- Gordon, Jacques. The Surprises of International Real Estate, Wharton RE Review, Vol. XV, 1, 2011-canvas

For reference:

- Jones Lang Lasalle. Global Market Perspective, update Q2 2018; Global Capital flows Q2, 2018; RE as Global Asset Class, 2013 –canvas;
- IMF. Global Financial Stability Report. April 2018-canvas
- JPMorgan. Eye on the Market Outlook. 2018 - canvas
- JLL. Global Real Estate Transparency Index 2018 – canvas
<http://www.jll.com/greti/transparency-index>

10/25 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
Developing an investment strategy

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
- Deng, Yongheng et al. Did Bubbles Migrate from the Stock to the housing Market in China? 2017 - canvas

For reference:

- Data Challenges in Measuring Real Estate Periodic Returns. Ch. 25 in *Commercial Real Estate Analysis and Investment*, Geltner, Miller, Clayton, Eichholtz –library

Assignment 1: Demand Analysis-- For a RE type and EM country of your choice, how would you assess demand? And estimate demand 5 years out?

11/1 Topic: Project Level Analysis; Opportunities and Constraints in Emerging Markets

Property rights and registration; limitations of informality
Approvals/ Permits
Pro-formas, Due diligence

Case: Equity Investments in Affordable Housing Projects in Sub-Saharan Africa. International Housing Solutions, Pamela Lamoreaux

IHS is a General Partner of a private equity firm providing equity finance for qualifying residential housing projects primarily in the affordable housing market in South Africa and neighboring countries. IHS established a Property Management Firm in 2015 to manage rental units owned by the Funds. IHS is the fund manager of a 10-year private equity fund worth more than \$220 million, which has been active since 2008 and is fully committed all in South Africa. Fund II (2017) is a 10 year equity fund of \$250 million with sleeves for South Africa, Namibia and Botswana including a “green facility” utilizing the IFC Green EDGET Tool. About \$150 million committed to date in 20 projects.

Ms. Pamela Ann Lamoreaux joined International Housing Solutions (based in South Africa) in 2007. Since 2017 she has been acting as a consultant to IHS on ESG matters. Prior to joining IHS, Pamela joined the IFC (private sector arm of the World Bank) to become the first Head of Housing Group, Financial Markets. In this role she worked in many countries in Africa (including Tanzania, Egypt, South Africa, Nigeria, Ghana, Botswana, and Zambia), Latin America (including Colombia and Mexico) and Asia (including China, India, Viet Nam and Cambodia). Previously, she was the COO of Hong Kong Mortgage Corporation. Prior to that, Pamela spent 12 years at Fannie Mae, in a number of departments with her last position as the Director of Fannie Mae’s International Consulting Group.

Readings:

- “Doing Business” and “Investment Climate” IFC, The World Bank Group, 2018
www.doingbusiness.org <https://www.wbginvestmentclimate.org>
- Lall, Somik, V. Henderson, A. Venables. African Cities. 2016 World Bank -canvas.
- Linneman, Peter. RE Finance and Investment; Ch 8 Development Pro forma Analysis \$ Ch 9, Development Feasibility Analysis (for students who did not take REAL721)

For Reference:

- IMF, Sub-Saharan Africa: Restarting the Growth Engine. April 2017 -canvas
- Prudential. The Wealth of Cities: The investment implications of urban expansion Feb 2015 - canvas
- JLL. Twenty African Cities Emerge as Next Frontier.2013 -canvas
- Schleiffer, A and Rafael La Porta. Informality and Development. JEP Vol 28, No 3, 2014 -canvas

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

11/08 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 Cellular Towers, Industrial, Mixed, Residential, etc. 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:

- JLL. Public and Private Real Estate; the sum is greater than the parts. 2017 - canvas
- De Wit, Ivo. International Diversification Strategies for Direct Real Estate, in JREFE (2010) 41:433-457- library
- 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:

- Institutional Limited Partners Organization. Private Equity Principles 2011 -canvas
- 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 -canvas
- MSCI EM Real Estate index <https://www.msci.com/documents/10199/6300736d-b23e-466d-af46-2c0df2a98ddc>
- IMF. Investment in Brazil: From Crisis to Recovery. 2018 -canvas

11-15 Topic: Balancing Risks and Rewards: Putting it all together

Comparing domestic and international returns; Emerging Market focus
Currency Risk, Tax Liabilities, Transaction costs, 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:

- PREA Quarterly. The Increasing Importance of Currency Risk in Real Estate. 2018–canvas
- MSCI. Currency Hedging: Adapting to Volatility. April 2016 - canvas
- Deutsche Bank. China Property: Long-term margin downtrend becoming more obvious. 26 August 2013 –canvas

For reference:

- JPM. China RE 2016 -canvas
- PWC. Emerging Trends in RE , Asia Pacific 2017 - canvas
- McKinsey. Voices on Infrastructure: Insights on Project Development and Finance. March 2017 -canvas
- JLL. China Logistics. May 2016 -canvas

11/20 Topic: The Role of Government in the Real Estate Sector in Emerging Markets

- The rule of law; contract enforcement
- Landlord and tenant rights; eviction & foreclosure
- Corruption; Money Laundering
- Subsidies

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

Readings:

- Djankov S. et al. Debt Enforcement around the World. JPE 2008 -canvas
- Sing, Foo Tien and Wang. Corruption and Home Bias in Global Real Estate Investment. July 2017 – canvas

For reference:

- IMF. Anti Money Laundering Regulation, Mexico. 2017 -canvas
- Mexico Case: Homebuilders- canvas

11/29 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: 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

For reference

- I.B. Botson. Commercial Real Estate: the Role of Global Listed RE Equities in a Strategic Asset Allocation. NAREIT. 2006 -canvas
- Kroencke and Schindler. International Diversification with Securitized Real Estate and the Veiling Glare from Currency Risk, JIMF, 2012 - canvas
- Evercore ISI. Mexico REITS. 2015 -canvas
- 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>

12/06 Student Presentations

Final Group Project Assignments due by 12 midday.