

University of Pennsylvania  
The Wharton School

## International Real Estate Development and Investment

### REAL 890

Fall 2019- Second mini-mester

October 17 to December 5

Thursdays 3-6pm -Room Vance B10

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

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#### **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 14. The final case has to be handed in on the last day of class, **Thursday, December 5 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 5 (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 Thus (436 Vance Hall) 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:**

<b>Region</b>	<b>Countries</b>	<b>Type of Real Estate</b>	<b>RE Investment Firm</b>	<b>Presenter</b>	<b>Date</b>
Emerging markets	<b>Europe/Asia/ LatAm/MENA; China-US case</b>	Preparing for Global Expansion/ US–China JV; Luxury Residential	Toll Brothers/ Developer	Fred Cooper/SVP Finance, Interntl. Development, Investor Relations	10/24
South /East Asia	<b>India</b>	Hotel, Office, Mixed Use	Taurus Investment Holdings/ Investor, Developer, Operator	Ajay Prasad, Country Managing Director- India	10/31
Latin America	<b>Mexico, Columbia, Peru</b>	Infrastructure, Emission Towers	TC Latin America Partners/ Equity fund	Gregorio Schneider/ Founder, Managing Partner, CIO	11/07
Sub-Saharan Africa	<b>West Africa</b>	Residential, Ownership and Rental	American Homebuilders of West Africa/Developer	Robert Hornsby/Co- Founder and CFO	11/14
Global	<b>Global, incl Emerging markets/Brazil case</b>	Global Mixed Portfolio Investor	Jaguar Listed Property & Jaguar Growth Partners/Portfolio Investor	James Rehlaender and Elizabeth Bell, Principals	11/21

### **10/17 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

#### **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 2019
- MSCI. The Future of Emerging Markets. April 2019
- 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 2019; Global Capital flows Q2, 2019; RE as Global Asset Class, 2013 –canvas;
- MSCI. Global Real Estate Performance in 2018 –July 2019 – canvas

- JLL. Global Real Estate Transparency Index 2018 – canvas  
http://www.jll.com/greti/transparency-index

**10/24 Topic: Macro-Level Analysis for Direct Investment**

Demand analysis for different types of RE; data limitations  
Property market fundamentals; Cyclical rationales  
Inflation, interest rate risk, liquidity, capital markets  
Supply constraints real side: land, infrastructure  
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](http://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
- Articles on Argentina, Brazil, Egypt and others on canvas
- Deng, Yongheng et al. Did Bubbles Migrate from the Stock to the Housing Market in China? 2017 - canvas

**For reference:**

- IMF. Global Financial Stability Report. April 2019-canvas

**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? Due on Monday Oct. 28 at 12 noon, RE Dep.**

**10/31 Topic: Project Level Analysis; Opportunities and Constraints in Emerging Markets**

Property rights and registration; limitations of informality  
Approvals/ permits/legal system

**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:**

- India's Real Estate Milestones; A Twenty Year Narrative. JLL 2018—canvas
- Lerner and Schoar. Does Legal Enforcement Affect Financial Transactions? The contractual channel in private equity. 2005 - canvas
- Schleiffer, A and Rafael La Porta. Informality and Development. JEP, 2014 -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:**

- "Doing Business" and "Investment Climate" IFC, The World Bank Group, 2018  
[www.doingbusiness.org](http://www.doingbusiness.org) <https://www.wbginvestmentclimate.org>
- PWC. Emerging Trends in RE , Asia Pacific 2017 - canvas
- Prudential. The Wealth of Cities: The investment implications of urban expansion Feb 2015 - canvas

**11/07 Topic: Investment Formats**

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

**Case: Equity investments in Cellular Towers, Industrial, Mixed, Residential 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 2<sup>nd</sup>, 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>

***Assignment 2: Assess TC LA's business model and presented project; risks and returns. Assess major differences with similar projects in a US context. Due Monday November 11 at noon in RE Dep.***

**11/14 Topic: Balancing Risks and Rewards: Putting it all together**

Comparing domestic and international returns; Emerging Market focus  
Currency Risk and hedging strategies, Tax Liabilities, Transaction costs, JV costs  
Dealing with corruption, growing prominence of ESG issues

**Case: American Homebuilders of West Africa, Developing residential and mixed developments using innovative financing strategies. Robert Hornsby Co-Founder and CFO, Wharton MBA'00**

**American Homebuilders of West Africa (AHWA)** designs, builds and sells high quality, affordable housing in West Africa. AHWA markets homes to members of the West African diaspora, private sector professionals, employee cooperatives and others in West Africa. AHWA offers buyers three key benefits they are unable to access elsewhere: security of their investment, quality construction, and access to finance. AHWA has demonstrated proof-of-concept and positive cash flow in Guinea with two developments, and is expanding to neighboring countries (e.g. Cote d'Ivoire, Senegal, Liberia, Sierra Leone, etc.) in 2019 and beyond to help alleviate the regional housing shortage of approximately three million units. ([africa-housing.com](http://africa-housing.com))

**Bob Hornsby** has more than two decades of experience in West Africa. He has led financial strategy for AHWA since 2014, securing over \$1.7M in startup financing and guiding the company to cash flow positive status by the first half of 2017, with average annual revenue growth over 100% since 2015. He contributes to the firm a particular blend of entrepreneurial experience, financial and strategic planning acumen, and knowledge of the macroeconomic and cultural landscape in West Africa. From 2000 to 2004 he was President and co-founder of technology services company Slingshot Solutions. He subsequently directed new business unit development for Overseas Strategic Consulting before co-founding AHWA. Bob holds an MBA from the Wharton School at the University of Pennsylvania and an MA in African Studies and International Economics from the Johns Hopkins University Paul H. Nitze School of Advanced International Studies (SAIS). He has worked in residential construction from pouring concrete to framing and roofing, and is a principal investor in his own rental property portfolio in the US.

**Readings:**

- PREA Quarterly. The Increasing Importance of Currency Risk in Real Estate. 2018–canvas
- MSCI. Currency Hedging: Adapting to Volatility. April 2016 – canvas
- FT 8-29-19 Peso slides as Argentina seeks more time to pay - canvas
- Sing, Foo Tien and Wang. Corruption and Home Bias in Global Real Estate Investment. July 2017 – canvas
- MSCI blog 2019 Emerging RE Trends- canvas
- Country cases on corruption, ESG issues - canvas

**For reference:**

- Lall, Somik, V. Henderson, A. Venables. African Cities. 2016 World Bank -canvas.
- IMF. Sub-Saharan Africa: Restarting the Growth Engine. April 2017 –canvas
- IMF. A Governance Dividend for Sub-Saharan Africa? January 2019 - canvas
- JLL. Twenty African Cities Emerge as Next Frontier.2013 -canvas
- McKinsey. Voices on Infrastructure: Insights on Project Development and Finance. March 2017 -canvas

**11/21 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

## **Case: Jaguar Listed Properties and Jaguar Growth Partners, Building a Global Real Estate Investment Fund in Turbulent Times, Jim Rehlaender and Elizabeth Bell**

**Jaguar Listed Property** is a privately held SEC registered investment advisor specializing in publicly-listed real estate markets globally. Headquartered in New York, with research offices in Amsterdam and Singapore, JLP is dedicated to structuring and managing real estate securities funds and segregated accounts for institutional investors in the US, Europe, Asia and Middle East. JLP takes an opportunistic approach to investing in listed real estate, concentrating portfolios in those companies that the team believes can create substantial value through the active management or development of commercial and residential real estate. Investments are focused on the most compelling risk/reward opportunities through several distinct investment strategies, unconstrained by industry benchmarks. **Jim Rehlaender** has 37 years' experience in the real estate industry including over 20 years managing global real estate securities portfolios. Prior to founding JLP, formerly known as Northwood Securities, Jim spent 14 years with EII Capital Management, Inc. (EII) where he was responsible for all non-US investments and was the co-portfolio manager for global portfolios.

### **Jaguar Growth Partners**

Headquartered in New York with affiliated offices in Latin America, Europe and Asia, Jaguar Growth Partners ("JGP" or "Jaguar") is a privately-held investment management firm focused on real estate companies and operating platforms. Founded in 2013 by Gary Garrabrant, Chief Executive Officer and Thomas McDonald, Managing Partner, Jaguar is distinguished by a partner-centric, highly active and collaborative approach to investing, optimizing value and achieving liquidity. Portfolio companies are active in five countries on two continents, and across multiple property sectors ranging from logistic and corporate property to retail and hospitality. **Elizabeth Bell** is Principal of the Investment team at Jaguar Growth Partners and responsible for investment analysis, transaction structuring, due diligence, and portfolio company management.

### **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
- IMF. Investment in Brazil: From Crisis to Recovery. 2018 -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



- See PWC Compare and contrast: Worldwide Real Estate Investment Trusts (REIT) under Class 11/7
- 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>

**11/26 Topic: The Role of Government in the Real Estate Sector in Emerging Markets**

Political risk

The rule of law; Landlord and tenant rights; eviction & foreclosure

Subsidies

Money Laundering

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

**Readings:**

- Djankov S. et al. Debt Enforcement around the World. JPE 2008 -canvas
- IMF. Anti Money Laundering Regulation. 2017 –canvas
- Mexico Case: Homebuilders- canvas

**For reference:**

- F&D Gimmie Shelter September 2019

**12/05 Student Presentations**

**Final Group Project Assignments due December 5 by 12 midday.**