



**International Real Estate Development and Investment
REAL 390/890**

Fall 2021- Second mini-mester

October 26 to December 7

Tuesdays 3.30-6.30pm -Room Vance B10

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Fred Cooper, Toll Brothers, Case Advisor & Lecturer

Office hours T 12 to 2
and 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 income producing real estate in emerging market economies. Topics will emphasize the importance of strategy and implementation in achieving successful projects, and include: the rationale, opportunities, risks and risk management strategies of international real estate investing; the macro-economic and financial factors that influence the performance of real estate markets across countries (debt and equity markets, inflation, liquidity, currency risk, capital controls, taxes); market specific qualitative factors that impact RE sector performance (property rights and land markets, transparency and the rule of law, planning procedures); the growing market for international RE securities and strategies for portfolio management.

Prerequisites:

This class does not teach basic real estate investment and development, and assumes that students come with some basic knowledge of cash flow modeling focused on revenues and expenses. We will touch upon concepts used in real estate analyses and explain those briefly. Undergrad students must have taken Real 209 which is a prerequisite for the course for UG. There are no prerequisites for MBAs.

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 international *case presentations* 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 critically important types of RE development for EMEs such as affordable residential, infrastructure, logistics, and other RE types such as office, retail, and hospitality - different EME countries/continents and different direct and indirect investment strategies. The last class will be dedicated to group presentations.

Course Materials:

- **Textbook:** There is no required textbook, but several chapters from *Real Estate Finance and Investments, Third Edition or newer* by Linneman; and from *Commercial Real Estate Analysis and*

Investments by Geltner, Miller, Clayton and Eichholtz are included in required or supplemental readings. **On reserve and in Study.net.**

- **Other 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, legal documents and data 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 by a guest speaker. Feedback and class participation will be 10% of your grade.
2. **Individual assignments.** There are 2 *brief individual assignments* which focus on specific emerging market analyses (qualitative and quantitative) and the estimation of risk factors. These assignments are in the form of brief memos and will be related to case presentations or lectures. 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 (this may be reviewed depending on campus regulations).** 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, **Tu 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). 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 me. 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. Guest lectures do not allow videotaping of their presentations, so attendance is critical.
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 make the effort 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.

Advising:

Contact me with any questions you may have whether related to class topics or more general questions on EM real estate; I answer emails promptly. I will have office hours from 12 to 2 on Tu (436 Vance Hall) by appointment, both online and in person. 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, Case presentations by guest speakers 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.

10/26 Topic: International Real Estate Markets / Rationales for Cross Border RE Investing

Global, International, Cross-border Real Estate Markets: size, flows
Why International? Why emerging markets? Understanding International Linkages
Rewards, Risks and Costs of International RE Investing: Overview
Facilitators of Real Estate Globalization: public markets, professionalization
Types of International Real Estate Investors and Developers

Guest speaker: Risks of EM Real Estate -Measuring Real Estate Transparency Across Markets. Jacques Gordon, Global Head of Research and Strategy, Jones Lang Lasalle.

Readings:

- Eicholtz, Gugler, Kok. Transparency, Integration, and the Cost of International Real Estate Investment, in Journal of Real Estate Finance and Economics, 2011 –canvas
- Geltner et al., Chapter 24

For reference:

- MSCI. Real Estate Market Size- June 2021 -canvas
- MSCI Emerging Markets Index. July 2021 -canvas
- Jones Lang Lasalle. Global Market Perspective, update Q2 2021; Global Capital flows Q2, 2021, canvas
- JLL. Global Real Estate Transparency Index 2020 – canvas
<http://www.jll.com/greti/transparency-index>

11/02 Topic: Macro-Level Analysis for RE Investment in EMEs; Financial Risks

Demand analysis for different types of RE; data limitations
Property market fundamentals; Cyclical rationales
Inflation, interest rate risk, liquidity, capital markets
Currency Risk and hedging strategies,

Case: Opening New Overseas Markets; the Case of Residential Development (direct investment). Fred Cooper, Senior Vice President Finance, International Development, & Investor Relations, Toll Brothers.

Guest Speaker: Currency Risk and Hedging Strategies. Debra Erb, Managing Director of Housing Programs, US International Development Finance Corporation.

Readings:

- Real Estate System. Ch 2 in *Commercial Real Estate Analysis and Investment*, Geltner et al., – copies in library
- 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 + Brazil 1990s case- canvas

For reference:

- IMF. Global Financial Stability Report and Economic Outlook. April 2021- web

Assignment 1: Demand Analysis-- For a RE type and EM country of your choice. Due on Monday Nov.8 at 12 noon, RE Dep.

11/09 Macro-level analysis: Market for RE Securities - Portfolio Construction 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
REITS and REOCS

Case: Portfolio Construction and Management in Turbulent Times (Columbia, Mexico, Costa Rico). Elizabeth Bell, Principle, Jaguar Growth Partners.

Readings:

- Hoesli and Oikarinen, 2012. Are REITs Real Estate? Evidence from International Sector Data. Swiss Finance Institute Research Paper 12-15 – web/canvas
- Geltner et al., Chapter 24 in *Commercial Real Estate Analysis and Investment* – 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

- Kroencke and Schindler. International Diversification with Securitized Real Estate and the Veiling Glare from Currency Risk, JIMF, 2012 – 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>
- 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>

11/16 Topic: Project Level Analysis; Opportunities and Constraints in Emerging Markets

Supply constraints real side: land markets, infrastructure
 Property rights and registration; limitations of informality
 Regulatory environment: Approvals/ permits, Tax Liabilities,
 Transaction costs, JV costs
 Rule of law and political risk
 Culture
 The ESG conundrum

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

Readings:

- 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
- Sing, Foo Tien and Wang. Corruption and Home Bias in Global Real Estate Investment. July 2017 – canvas

For Reference:

- F&D The True Cost of Global Corruption. 2020
- India's Real Estate Milestones; A Twenty Year Narrative. JLL 2018–canvas
- IMF. Anti Money Laundering Regulation. 2017 –canvas
- Institute of International Finance. Sustainable Finance Policy and Regulation: the case for greater international alignment. March 2020

Assignment 2: Assess Taurus India's business model and presented project; risks and returns. Assess major differences with similar projects in a US context. Due Friday November 19 at noon in RE Dep.

11/30 Topic: Priority Real Estate Sectors in EMEs: Infrastructure, Residential (affordable)

Infrastructure investments
 The financing of infrastructure projects, PPPs
 Opportunities and constraint in the affordable residential sector

Case: Equity investments in Cellular Towers, Data Centers- Latin America. Gregorio Schneider, Managing Partner and CIO, TC Latin America Partners,

Case: Workforce / Affordable Housing Investment in Sub-Saharan Africa – South Africa, Botswana, Namibia. Pamela Lamoreaux – Finance Consultant (former CFO), International Housing Solutions.

Readings:

- 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:

- Lall, Somik, V. Henderson, A. Venrables. African Cities. 2016 World Bank -canvas.
- F&D Gimmie Shelter. September 2019

2/07 Student Presentations

Final Group Project Assignments due December 7 by 12 midday.