

REAL 2050/7050: Global Real Estate: Risk, Politics, and Culture

Professor Maisy Wong

Spring 2023 (1 cu)

TTh 10:15am to 11:45am;

Office hours: Tu 9am to 10am, or by appointment

Preliminary (Last updated: Nov 15 2023)

Overview: This is an introductory course to global real estate markets, with a focus on income-producing real estate assets. Globally, the estimate of the value of income-producing real estate assets is around \$60 trillion.

The goal of the course is to help students develop a global mindset by introducing the basics of real estate valuation and risk management and applying the concepts to a wide range of global contexts. We will emphasize concepts that are salient to cross-border real estate strategies, including currency risk, political risk, rule of law, property rights, and culture. We will also use current events to help us characterize risks facing real estate investors. For example, how might inflation or U.S./China relations influence the cross-border investment strategies of real estate firms? What should investors consider in choosing a country and a local partner? The course will largely cover markets outside the United States, except for one or two special topics. We will focus more on the qualitative aspects of real estate investment analysis and less on the quantitative aspects.

This is a full-semester course, cross-listed for MBA's and undergraduates. REAL 2050 is part of the Wharton Undergraduate Global Flex Fundamentals bracket.

Pre-requisites: There is no pre-requisite for the course. No prior real estate experience and financial modeling experience are needed. The cases will require a basic understanding of cash flow modeling which will be taught in class (revenues and expenses only, with no leverage nor taxes). The lectures will require a basic understanding of demand and supply principles covered in EC0100 or equivalent introductory courses for economics. I have posted a sample midterm to help you gauge the types of quantitative and qualitative questions that will be fair game for exams.

Recitation on basics of cash flow modeling: There will be a recitation to prepare students for the concepts needed to complete the case and to cover the basic concepts underlying cash flow modeling and time value of money. This recitation is targeted towards students who have not taken FNCE 1000 or FNCE 6110.

Potential overlap with other courses: This is an introductory course designed to equip students with the basics of real estate investment analysis necessary to understand decision-making in global real estate contexts. For example, we will cover the *basics* of real estate cash flows, currency risk, political risk, and rule of law to help students understand how global real estate investors think about risk when investing in international commercial properties, international REITs, non-performing loans, and land markets.

We may touch upon concepts taught in other courses, including Real Estate Investments (REAL/FNCE 2090/7210), Capital Markets (FNCE 2380/7380), and International Financial Markets (FNCE 2190/7190). If you have taken *any* of these courses, you probably know more than you need for certain aspects of this course. If you have taken *all* of the courses above and have questions, please review the sample midterm and email me if you have concerns.

Course materials:

- There is no required textbook but here are three supplementary texts for students who want to further their real estate interests:
 - *Real Estate Finance and Investments*, 3rd edition or newer, by Peter Linneman.
 - *Commercial Real Estate Analysis and Investments* by David Geltner, Norman Miller, Jim Clayton, Piet Eicholtz
 - *International Macroeconomics*, 4th edition or newer, by Robert C. Feenstra and Alan M. Taylor
- The class schedule below lists the relevant readings.
 - Note, * **indicates required articles** (which will be fair game in exams) and ^ indicates highly relevant articles that provide useful background.
- On Canvas you will find:
 - Slides and class notes
 - Readings
 - Canvas>Files>Readings
 - Canvas>Course Materials@Penn Libraries (for book chapters)
 - Announcements, updates, and clarifications
 - Answers to questions that are of general interest (e.g., about a case)

Guest speakers:

There will be **five guest speakers** for this class. All lectures are outside of regular class time to allow students from both sections to attend (5 regular lectures are cancelled in lieu of guest lectures). **Attendance is required and I will take attendance.** I will try to schedule guest lectures on different days and times, whenever possible. Please note that many of our guest speakers have global commitments and may need to re-schedule their visit. Our guest speakers have allocated time from a busy schedule to be with you. *I expect all students to attend synchronously*, unless you have a class conflict. If you cannot attend, please complete the Canvas survey (Quizzes>Survey for guest lecture attendance) so that we may account for participation accordingly.

These sessions are **required** material and fair game for the exams. If possible, I will post the recording but in some instances, the guest speakers may request that I do not record the lectures so the guests feel comfortable speaking freely. The guest speakers for this semester include:

1. Catherine Hong, January 29th (Mon), 4:30pm EST to 5:30pm EST on Zoom
2. February 6th (Tue), to be confirmed
3. Christina Gaw, March 11th (Mon), 9pm EST to 10pm EST on Zoom
4. Alan Miyasaki, April 1st (Mon), 6pm to 7pm EST in-person
5. April 9th (Tue), to be confirmed

Midterms:

Two midterm exams will be held in-person during regular class time on:

- Thursday, 2/22
- Thursday, 4/18

Both exams must be passed in order to receive a passing grade for the course. Exam 2 is not cumulative in content, but assumes proficiency in basic skills taught in the first portion of the class. Exams will cover the material examined in class and during guest lectures, the class notes, the cases, and the required readings. You are expected to be proficient enough with the material to complete the exam within the allocated time.

Make-ups are given only for medical or exceptional personal situations. To be eligible for a makeup, you need to notify me in advance of an exam if there is a chance you might miss it, unless in the case of a truly unforeseeable emergency. **If you cannot take the exam on these dates, please drop the class now.**

Wembley Case (groups of 3 to 4 members): There will be one case handed out in class. You will choose your own group of 3 to 4 members within your own section. You and your teammates should sign up under the “Wembley team sign-up” section on Canvas. If you cannot find a group, you must complete a Canvas survey by 1/29 (Mon), 11:59pm EST (see Canvas>Quizzes). I will either form a group for you or assign you a team. Late cases will not be accepted nor will extensions be given.

Global Strategy Memo (10 pages for 2 countries or 12 pages for 3 countries, 20 points):

There will be a Global Strategy memo to be completed in groups of 2 to 3 members. Each member should sign up under “Global Strategy Memo team sign-up” section on Canvas. You can group with anyone within your section (it can be different from your Wembley team). If you need help finding a group, you must complete a Canvas survey by 3/15 (Fri), 11:59pm EST (see Canvas>Quizzes).

The goal of the assignment is to describe an investment strategy, focusing on one property sector (office, residential, hotels, logistics, etc.) and different countries (each member should pick one country and each country should be in a different region: North America, Latin America, Europe, Asia, Africa).

There will be two deliverables, an intermediate outline (to be completed individually) and a final memo (completed by the group):

- **Individual outline:** 1-page with bullet points outlining the key points for the sector you chose and at least one country. That is, your 1-pager should be completed individually and should cover either one sector and one country, or one sector and two to three countries. It should be completed independently (each partner in the pair should submit your own outline). The individual outline is due on Tue (4/2, 11:59pm EST).
- **Final Global Strategy Memo:** Final memo comparing the real estate strategy in the given property sector in the two countries (7 pages of text, 3 pages of exhibits) if your group has two members; or three countries if your group has three members (9 pages of text, 3

pages of exhibits).

Grading:

The course grade will be based on the following components:

	Percent of Total	Due Date
Midterm 1	23	Feb 21 (Wed), in-class
Wembley Case (Group) – Excel	15	Feb 5 (Mon), 11:59pm EST
- Write-up		Feb 12 (Mon), 11:59pm EST
NPL Short Quiz (Canvas, at home)	3	Mar 19 (Tue), 11:59pm EST
Final Memo – 1-page outline (Individual)	4	Apr 2 (Tue), 11:59pm EST
- 10-page memo (Paired)	22	May 2 (Th), 11:59pm EST
Midterm 2	23	Apr 17 (Wed), in-class
Participation	10	Attendance + participation
Total:	100	

Passing the class: Both midterms and the final memo must be completed and achieve a basic proficiency level to pass the course. My process for determining basic proficiency relies on a mix of qualitative and quantitative assessments. At the end of the semester, I flag all students who are three standard deviations below the mean of the overall score. I then go through the individual assignments and participation notes to assess whether the student has put in the effort and achieved the basic proficiency level required to pass this class. My intent is not to fail students but I am also committed to be fair to the rest of the class.

Over the course of the semester, I will also flag all deliverables that are two standard deviations below the mean. Depending on my assessment, I may reach out to discuss how we can make adjustments to set you up to succeed in the course.

The dates and times for all assignments are final and must be strictly adhered to. Failure to complete any exam or hand in assignments on time will result in zero points for that exercise.

Honor code: Each assignment must be prepared separately using your own materials and write-ups without reference to anyone else's materials or write-ups. It is your responsibility to make sure all individual and group assignments are prepared independently. For group assignments, violations by anyone will result in the entire pair or group getting a zero on the assignment. You may verbally discuss assignments, including ideas, approaches, and solution methods, with other students who are *currently* enrolled in REAL 2050/7050. You may not obtain assistance, or solicit advice, from former students, current or past employees of firms involved with the cases, or anyone else involved in the real estate investment.

You also may not provide such assistance or advice once you are no longer enrolled in this class. You may not share your written materials or Excel with anyone at any point. Violations of these rules will be treated as violations of Penn's Code of Academic Integrity. I do not distinguish between the plagiarizer – the team using other's materials – and the provider of the materials. Do not circulate your solutions to the assignments. If I find your assignment to be the source of plagiarized material, I will report the violation and do my best to retroactively change your grade.

Student engagement and technology:

- Please pick a seat on Jan 23rd (Tue) and that will be your assigned seat for the semester.
- I will be taking attendance using the Attendance App or physical sign-up sheets when the App is not feasible.
- Canvas announcements: Please check Canvas announcements regularly.
- I allow the use of tablets to take notes. Screens must be flat on the table (except the last row).
- Phones must be turned off and put away.
- Changes: I reserve the right to change the policy to improve the learning environment. I will use Canvas announcements to communicate all changes. If there is a significant change to the curriculum (midterms, assignments) or guest speaker schedule, I will post these on Canvas and also email all students directly.
 - If needed, some of the policies for in-person instruction will be subject to change as we adjust to the health and safety guidelines of the university.

Getting help:

- My email is maisy@wharton.upenn.edu. I reply to all emails regarding class matters within 24 hours. If I do not, please re-send the email in case I missed the first one.
- Office hours will be held in my office (434 Vance Hall) or over zoom (if you email me). I hold regular office hours, take appointments, and answer questions by email. I also hold extra office hours before a case is due and before each midterm.

Regrade Policy:

I strive for accuracy and equity in the grading for this class. However, despite our best efforts, grading is sometimes imperfect and the onus for bringing any errors to my attention falls upon you. Please review the solutions on Canvas before submitting the regrade request. It is not necessary to meet with me to go over a regrade. Under no circumstances will I go over the grading of your assignment in “real time,” with no forewarning.

Steps to submit a regrade request:

- 1) You must upload your regrade request on Canvas (there will be instructions).
- 2) The regrade requests should include a cover sheet indicating:
 - a. The question that needs to be regraded
 - b. An explanation of the error and justification for why points should be rewarded
 - c. The number of points associated with the request

Course Schedule for MBA's in REAL 7050

Note: * = Required; ^ = UG only, MBA's welcome

This is a cross-listed class. The overall lesson plan is largely the same for MBA's taking REAL 7050 and for undergraduates taking REAL 2050. There are a few small differences. To avoid confusion, I have posted two different schedules for MBA's (REAL 7050) and for undergraduates (REAL 2050). Note that I have also posted additional news articles on Canvas to provide more background on global events. For the exam, you are only responsible for Required (*) readings.

Date	Day	Topic
16-Jan	Tue	- Intro [MBA only] Readings: • *Geltner et al., Chapter 24.2 (p. 611 – p. 618, p. 624 –p. 627) • Financial Times: Bruce Flatt of Brookfield on owning the backbone of the global economy
18-Jan	Th	- Cash flow 1 Readings: • *Linneman, Ch. 4 (up to Unlevered Net Cash Flows, ignore taxes and leverage) • *Linneman, Ch. 7 (The Use and Selection Of Cap Rates, first 11 pages of the chapter)
23-Jan	Tue	- Cash flow 2
25-Jan	Th	- Cash flow 3
26-Jan	Fri	- Recitation on risk assessment, basics of time value of money (UG only)
29-Jan	Mon	- Guest lecture 1 (Catherine Hong)
30-Jan	Tue	- Currency risk 1 Readings: • *PREA, The increasing importance of currency risk in real estate • *Feenstra and Taylor, Chapter 2 (Introduction to Exchange Rates and the Foreign Exchange Market) • * "How the Gherkin was pickled: a tale of debt, risk and ambition", Financial Times, 2014
1-Feb	Th	- Currency risk 2
5-Feb	Mon	- Wembley Excel Due
6-Feb	Tue	- Global capital markets 1 - Guest lecture 2 (to be confirmed)
8-Feb	Th	- Global capital markets 2
9-Feb	Fri	- Recitation on memo and risk assessment (UG only)
12-Feb	Mon	- Wembley write-up due
13-Feb	Tue	- Wembley case discussion
15-Feb	Th	- Midterm 1 Review (UG only) -Regular lecture cancelled for MBA's [1 of 5]
20-Feb	Tue	- Diversification/Indirect 1 Readings: • Sam Zell's 1993 speech in NAREIT on the potential for the REIT sector. • Stevenson, 2003

22-Feb	Th	- Midterm 1 in class
27-Feb	Tue	No class (MBA Core Exams)
29-Feb	Th	No class (MBA Core Exams)
5-Mar	Tue	Spring Break!
7-Mar	Th	Spring Break!
11-Mar	Mon	- Guest lecture 3 (Chrstina Gaw)
12-Mar	Tue	- Indirect 2
14-Mar	Th	- Indirect 3
19-Mar	Tue	- Regular lecture cancelled for MBA's [2 of 5] - Final memo prep (UG only) - NPL short quiz due
21-Mar	Th	- NPL discussion
26-Mar	Tue	- Regular lecture cancelled for MBA's [3 of 5]
28-Mar	Th	- Regular lecture cancelled for MBA's [4 of 5]
1-Apr	Mon	- Guest lecture 4 (Alan Miyasaki)
2-Apr	Tue	Politics and rule of law 1 Readings: • Calomiris and Haber, Fragile by Design (2014), Ch. 2 (Game of Bank Bargains - Final memo 1-page outline due
4-Apr	Th	- Politics and rule of law 2
9-Apr	Tue	- Politics and rule of law 3 - Guest lecture 5 (to be confirmed)
11-Apr	Th	- Property rights and land markets Readings: • Glaeser, Triumph of Cities (2011), Ch. 3 (What's good about slums?) • Rithmire, "Land Institutions and Chinese Political Economy", 2017
16-Apr	Tue	- Regular lecture cancelled for MBA's [5 of 5]
18-Apr	Th	- Midterm 2 in class
2-May	Thu	- Final Memo Due

Course Schedule for REAL 2050

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18-Jan	Th	- Cash flow 1 Readings: • *Linneman, Ch. 4 (up to Unlevered Net Cash Flows, ignore taxes and leverage) • *Linneman, Ch. 7 (The Use and Selection Of Cap Rates, first 11 pages of the chapter)
23-Jan	Tue	- Cash flow 2
25-Jan	Th	- Cash flow 3
26-Jan	Fri	- Recitation on risk assessment, basics of time value of money (for students without FNCE 1000)
29-Jan	Mon	- Guest lecture 1 (Catherine Hong)
30-Jan	Tue	- Currency risk 1 Readings: • *PREA, The increasing importance of currency risk in real estate • *Feenstra and Taylor, Chapter 2 (Introduction to Exchange Rates and the Foreign Exchange Market) • * "How the Gherkin was pickled: a tale of debt, risk and ambition", Financial Times, 2014
1-Feb	Th	- Currency risk 2
5-Feb	Mon	- Wembley Excel Due
6-Feb	Tue	- Global capital markets 1 - Guest lecture 2 (to be confirmed)
8-Feb	Th	- Global capital markets 2
9-Feb	Fri	- Recitation and memo and risk assessment
12-Feb	Mon	- Wembley write-up due
13-Feb	Tue	- Wembley case discussion
15-Feb	Th	- Midterm 1 Review (UG only^)
20-Feb	Tue	- Diversification/Indirect 1 Readings: • Sam Zell's 1993 speech in NAREIT on the potential for the REIT sector. • Stevenson, 2003
22-Feb	Th	- Midterm 1 in class
27-Feb	Tue	- Regular lecture cancelled [1 of 5]
29-Feb	Th	- Regular lecture cancelled [2 of 5]
5-Mar	Tue	Spring Break!
7-Mar	Th	Spring Break!
11-Mar	Mon	- Guest Lecture 3 (Christina Gaw)
12-Mar	Tue	- Indirect 2
14-Mar	Th	- Indirect 3

19-Mar	Tue	- Final memo prep (UG only) - NPL short quiz due
21-Mar	Th	- NPL discussion
26-Mar	Tue	- Regular lecture cancelled [3 of 5]
28-Mar	Th	- Regular lecture cancelled [4 of 5]
1-Apr	Mon	- Guest lecture 4 (Alan Miyasaki)
2-Apr	Tue	- Politics and rule of law 1 Readings: • Calomiris and Haber, Fragile by Design (2014), Ch. 2 (Game of Bank Bargains) - Final memo 1-page outline due
4-Apr	Th	- Politics and rule of law 2
9-Apr	Tue	- Politics and rule of law 3 - Guest lecture 5 (to be confirmed)
11-Apr	Th	- Property rights and land markets Readings: • Glaeser, Triumph of Cities (2011), Ch. 3 (What's good about slums?) • Rithmire, "Land Institutions and Chinese Political Economy", 2017
16-Apr	Tue	- Midterm 2 Review [UG only^]
18-Apr	Th	- Midterm 2 in class
23-Apr	Tue	- Final Memo prep 2 (UG only^)
25-Apr	Th	- Regular lecture cancelled [5 of 5]
30-Apr	Tue	- Regular lecture cancelled [in lieu of Fri recitations in January]
2-May	Th	- Final Memo Due