INTERNATIONAL REAL ESTATE – The Emerging Markets
BUS 236f (2)
Spring 2018
Monday & Wednesday, 11 am - 12:20 p.m.
Lemberg 54

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OVERVIEW

The course serves as a follow-on to BUS 235f, Real Estate Fundamentals, and looks at the analysis, financing, marketing, and management of income-producing real property in the Emerging Markets. Using case discussion, we explore how developers and investors identify projects, determine value, design marketing strategies, and obtain financing.

LEARNING GOALS & OUTCOMES

Recognize and evaluate the determinants of value: individual property characteristics, market conditions of supply and demand, capital market influences, public policy effects

Be familiar with the legal and regulatory environment in various markets: property rights and limitations, leases and other contracts, land use regulations

Understand the roles and responsibilities of the “players” in the marketplace

Estimate the value of income-producing properties

Understand sources of capital and the basics workings of the real estate capital markets

Determine a basic capital structure for a property acquisition including the amount, cost, and other market terms for debt

Explore societal challenges and opportunities that result from the inherent tension of individual versus communal rights and responsibilities

COURSE REQUIREMENTS

Required Reading

I have created a link that will take you to a set of HBS cases, notes and spreadsheet supplements. In addition, I will distribute materials that are not otherwise available. To access the Harvard site, follow this link:  http://cb.hbsp.harvard.edu/cbmp/access/77108013

Prerequisite: BUS 235f or permission of the instructor
**Attendance and Participation**
Class attendance is required. For most classes, there will be a case assigned and every student is expected to come prepared to discuss it in detail. Please place a name card on the desk at every session.

**Workload Expectation**
With BUS 236f structured as a 2-credit course taught in a half-semester, you are expected to spend a minimum of 9 hours of study time per week in preparation for class (readings, cases, discussion questions, homework, research, etc.).

**Academic Honesty**
You are expected to be honest in all of your academic work. Please consult Brandeis University Rights and Responsibilities for all policies and procedures related to academic integrity. Students may be required to submit work to TurnItIn.com software to verify originality. Allegations of alleged academic dishonesty will be forwarded to the Director of Academic Integrity. Sanctions for academic dishonesty can include failing grades and/or suspension from the university. Citation and research assistance can be found at LTS - Library guides.

**Disabilities**
If you are a student with a documented disability on record at Brandeis and wish to have a reasonable accommodation made for you in this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

**Grading**
You will be graded on your class participation and 4 assignments. (Teams will generally consist of 3 students.) Grades are assigned to all members although I reserve the right to alter individual grades in certain circumstances, e.g., when it is clear to me that an individual clearly did not contribute to the assignment in a consistent and meaningful way.

**CLASS PARTICIPATION  30%**
*Please keep a record of your participation, as I will ask for a written self-assessment at the end of the course.*

There is an extra credit assignment to improve this grade (up to one step, i.e., from B to B+/B for a good effort or to B+ if the assignment is well done); see LATTE for class on 4/18.

*You are entitled to one absence. After that, each absence results in a one-step reduction in this grading element (B+ to B, and so on). Excellent attendance with minimal participation will result in a “class participation grade” of C+.*

**GRADED ASSIGNMENTS  70%**
*four assignments, each worth 17.5%.*

*Please hand in the original at the start of class, but be sure to retain a copy for class discussion.*
## COURSE OUTLINE

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<td>a Dubai multi-family project: <em>Aamir Malkani</em>, CEO, Sandstone Properties</td>
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<td>The Xander Group and the Chennai Warehouse (I will hand out this case)</td>
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### COURSE MATERIALS on HBSP site

- Structuring Real Estate Deals: An Investor’s Perspective 208066
- Waltz on the Danube 804021 + spreadsheet
- North Goes East 208136
- Hines Goes to Rio 805001
- Equity International: The Second Act 209110 + spreadsheet
- Corporate Avenue 812056
- Chongqing Tiandi 207019
- SOHO China: Design, Development, and Social Harmony 213025
- SOHO China: Transformation in Progress 217023
- Real Estate in China: A Technical Note for SOHO China 217029
- The Road to Kolkata: NH-34 and PPP in India 215007
CASE: Waltz the Danube

TEAM ASSIGNMENT

This case describes the intricate parts of an early real estate deal from the development project manager’s standpoint: choosing a market, land acquisition, project development, design and construction issues, investment returns, and equity financing issues. Dr. Philipp von Wilmowsky is director of Hungarian operations for ECE Projektmanagement, a German real estate development conglomerate. He has been working for two years on the development of a 30,300 square meter shopping center project located in the city of Gyor, Hungary.

Assignment

Imagine that you work in Hamburg for Alexander Otto who has asked you to evaluate Philipp’s project. Please write a memo (4-6 pages single spaced, Times New Roman, size 11, 1” margins all around, plus exhibits, including the EXCEL spreadsheet, to Mr. Otto in which you answer the following 4 questions, and end with a well-written section in which you summarize the opportunities and issues, and recommend either that ECE proceed or not proceed with the project.

1. Is there an adequate market in Gyor? Based on case assumptions, are rents adequate to support this development? To help with the answer, calculate market size (aggregate retail market demand, factoring in the unemployment rate), projected market share (to see if it falls within the 8% to 12% requirement), and affordability of rents from the tenant’s perspective (total occupancy costs including CAM at a maximum 12% of their sales). Do you question any of the assumptions? If so, explain.

2. Which design option is most attractive to the various constituents (ECE/investor, city, customers)? Please look at quantitative and qualitative factors. Be sure to calculate IRRs for ECE and investors for Scenarios 2 and 3, as described in Exhibit 8, when addressing quantitative factors. (Exhibit 7 shows the two IRRs for Scenario 1.)

3. What factors should one take into account to perform a sensitivity analysis and why? Based on a different set of assumptions from the ones found in Exhibit 7, please run sensitivity analyses for all 3 scenarios in Exhibit 8. Please identify those assumptions.

4. What are the retail market, construction, economic, and financing risks in this deal?

GRADING: Q1-4: 20% each; Final section: 20% (don’t forget to do this!)
CASE: North Goes East

STUDY GUIDE

Synopsis
The North Real Estate Opportunities Fund is making an early stage investment decision in the emerging markets of Central and Eastern Europe. This investment is the Fund’s first, and fund managers Magnus Lofgren and Robert Provine must decide in which of three projects to invest. Each project is in a different country, and so a significant part of the decision is screening each country to determine whether its environment (present and projected) is conducive to a profitable investment.

Study Questions
1. How should Magnus and Robert weigh the country context for the initial investment?
2. Which project should they recommend to the board? Why?
3. What are the biggest risks?
4. Which country has the most promise for future investments?

CASE: Hines Goes to Rio

STUDY GUIDE

The class will begin with a role play.
You are a senior analyst at Hines in their Texas world headquarters, working directly for Edward Smith, Executive Vice President for Latin America. You have been working on Torre Almirante for a week. (Assume everything you know about the project comes from the HBS case.)

It's early afternoon on November 14, 2003. Ed just got off the phone with Steve Dolman, VP and Project Officer for Brazil. Steve had called to get Ed's thoughts on how best to frame the issues and opportunities regarding Torre Almirante for a presentation he will be giving that evening to EMF II investors. Ed said he'd get back to Steve in 30 minutes.

Ed asks you to come to his office to give him a succinct 2-3 minute oral report on the strengths and weaknesses of the transaction, as you see them.

COME TO CLASS PREPARED TO GIVE THE ORAL REPORT. I will “cold call” on several of you to give that report.
CASE: Equity International: The Second Act

INDIVIDUAL ASSIGNMENT

Synopsis

Thomas McDonald, SVP of Equity International (EI), has the opportunity to invest in the Brazilian homebuilder, Gafisa. A success would greatly contribute to proving that EI’s second fund will be as successful as the first. He has to evaluate a new country for his firm to invest in as well as the investment opportunity.

Assignment

Imagine that you are Thomas McDonald. You are meeting tomorrow morning with Sam Zell and Gary Garrabrant to discuss the opportunity. You already sent them a brief memo that outlines the investment.

Write that memo! It should be 2 pages in length (single spaced, Times New Roman, size 11, 1” margins all around, no exhibits), addressed to the Chairman and CEO, recommending the transaction.

Please open the memo with a paragraph that outlines the investment. Then answer the following:

1. “What are the pros and cons of making the investment?” Please analyze separately the country, the co-investor (GP Investments), the company (Gafisa), the IRR, the likely exit.

2. Based on that analysis, why do you recommend the investment?

CASE: Corporate Avenue

STUDY GUIDE

Synopsis

It is August 2011 and Shanghai is in a real estate bubble. But the office leasing market still seems to be healthy. Camille Ping has a 1935 square meter tenant prospect, Advanced Furniture Systems, to move into Corporate Avenue, a 67,000 square meter first class office building which is part of Shui On Land’s Taipingqiao development in Puxi.

The landlord and the tenant have agreed upon a letter of intent and Camille, also known as the "Iron Lady", has sent a draft lease for the tenant's review and signature. In response, the tenant's lawyer has sent back a detailed written response raising 25 questions. The leasing broker is anxious to close the deal. Camille has to decide how to proceed with the negotiation and how to respond to the myriad of issues raised in the tenant's lawyer's letter.

Assignment – HAND IN A COPY OF YOUR EXHIBIT 7 AT THE START OF CLASS (ungraded)

1. Please fill out exhibit 7 only for the following issues: 3, 6, 7, 8, 9, 10, 20, 21
   
   a. which are critical to AFS (as opposed to negotiation points)?
   b. which are critical to Ping, such that she will not be willing to agree at all?
   c. where there is room to negotiate, what is the likely outcome for each issue?

2. Are there other issues critical to either the tenant or landlord? If so, come prepared to discuss them.
Case: Chongqing Tiandi

TEAM ASSIGNMENT

Synopsis

Vincent Lo is a Hong Kong-based developer who has an opportunity to participate in redeveloping an industrial city in southwest China, Chongqing. Lo has had success in China, most notably the Taipingqiao Redevelopment Project in Shanghai that is anchored by the popular Xintiandi retail and entertainment district. Despite past success, Lo must decide if this opportunity is the right fit both in terms of place, timing, government support, and market demand. While success could mean numerous invitations from other municipalities to direct similar projects, failure could severely damage his reputation.

Study Questions for class discussion (this is not the assignment)

1. What has Lo done to succeed as a developer in mainland China despite the fact that he is considered foreign?
2. What are the pros and cons of Chongqing for his next project?
3. What are the advantages of Shui On’s phased, mixed-use development strategy? What are the risks? In what ways does Lo depart from the successful formula used for the Taipingqiao project?
4. What do you think about the mandatory relocation of 11,000 residents currently living on the site and how should Lo manage this process?

Team assignment

The deliverable will be a PPT deck in which you will present in class for 7 minutes on one of the two topics below. All team members must have speaking roles. Time permitting, we will follow with Q+A. Please practice to be sure you can finish your prepared remarks in 7 minutes; as guidance, you probably want no more than 10 slides, perhaps even only 7.

1) Describe and analyze Chongqing Tiandi today. What happened to the project since the case was completed? Why?

2) Describe and analyze today Shanghai’s "signature real estate development, the Taipingqiao Redevelopment Project, anchored by the landmark Xintiandi retail and entertainment district."

Deadline to email me your PPT deck: 9am on Monday, April 9.

In your email, list your sources and then write the following if true: “The attached deck contains information and photographs available on the internet but also reflects our analysis of the topic. Where we copied or simply paraphrased someone else’s analysis, we footnoted it on the PPT slide.” No need to footnote your source for photographs or drawings of the site.

Since these are PPT slides, it's best to keep them crisp and uncluttered. Don't try to pack all your research onto the slides; if you do, they will be unpleasant to look at and unworthy of a good grade.
CASE: SOHO China: Design, Development, and Social Harmony

STUDY GUIDE

Synopsis (case takes place 2011-12)

Founded in 1995, SOHO China has developed into a world-class RE firm that develops high quality projects known for their cutting-edge designs and investment potential. Despite the success of the firm, Zhang Xin still looks to the future with great uncertainty. Average residential pricing in China has dropped, as the government continues to put downward pressure on residential housing prices through restrictions on the number of apartments a resident is allowed to purchase, and aggressive promotion of affordable housing. Zhang Xin wondered what opportunities and threats such market conditions presented to SOHO. In terms of sales and marketing, SOHO China has historically focused only on high end, design-drive projects in Shanghai and Beijing. As the market became more competitive, she wondered what key strategic decisions in design, financing, and sales the company would need to make in order to maintain its competitive advantage.

In addition to reading the case, please watch this early video about Zhang Xin, dated May 2011: http://video.ft.com/938473413001/Zhang-Xin-on-being-a-businesswoman-in-China/World

Study Questions

1. What is the firm's strategy regarding product, target customer, and strata-title pre-sales?
2. What are your concerns about the strategy?

CASE: SOHO China: Transformation in Progress

Synopsis (case takes place 2015-16)

In 2016, against the backdrop of a challenging Chinese macroeconomic environment, SOHO China was struggling to convince analysts of the merits of its new “build to hold” strategy. Zhang had also seen an opportunity to capitalize on the rapidly growing shared-office trend, developing the company’s own 3Q co-working product and placing these centers in its newly held buildings. Despite 3Q’s initial success and the “build to hold” strategy beginning to bear fruit, SOHO’s stock price was still near record lows. How could Zhang Xin educate the market to reward SOHO’s share price and acknowledge the successful transition? Would these strategic decisions be sufficient to steer SOHO China through new economic hurdles? Is 3Q enough to buoy SOHO’s performance and bring it into the next phase of growth?

Study Questions

1. How can Zhang Xin get “the street” to appreciate and value SOHO’s new business strategy?
2. Is the 3Q business line a panacea for SOHO’s woes? If so, should it continue pursuing this strategy on its own or form JVs? How do the economies compare between 3Q and a traditional lease.

For her thoughts on innovation in RE, watch this video from 2017: https://www.youtube.com/watch?v=Fu5ZFsroOqY

Her background, her enthusiasm, and how she helped transform Beijing and Shanghai, also from 2017: https://www.youtube.com/watch?v=Fu5ZFsroOqY
CASE: The Road to Kolkata: NH-34 and PPP in India

Synopsis

The case introduces students to public-private partnerships (PPPs) in the emerging market context by highlighting a particular highway construction project and depicting it from the perspective of a private developer. India began experimenting with PPPs in road development in 1996 to address the country’s outmoded road network.

HCC Concessions (HCON), the developer arm of the storied Hindustan Construction Company (HCC), was established in 2008 to enable HCC to participate in this growing sector as an owner and a contractor. The road in question, NH-34, is HCON’s largest project, representing more than half of the concessionaire’s road length and capital commitment.

At the time of the case (May 2014), construction of NH-34 has been fraught with difficulties, but the HCON CEO, Arjun Dhawan, can see the light at the end of the tunnel. HCON has been approached with 3 offers to sell the road – a common occurrence after a developer has taken the construction risk and sufficiently “de-risked” a project to the point where its stable cash flow looks attractive to more conservative investors.

Which offer should he take?

Study Guide

1. What are the risks of the project throughout its life cycle and how can they be mitigated?
2. Which option should Dharwan choose?
3. What are the advantages and disadvantages of PPPs for India?

NOTE: the extra credit opportunity will be posted on LATTE
CASE: The Xander Group and the Chennai Warehouse

INDIVIDUAL ASSIGNMENT (I will hand out the case)

Synopsis

The Xander group has the opportunity to make what looks like an attractive investment in a modern warehouse on the outskirts of Chennai, India. The investment is complicated because in addition to negotiating a price for this 130,000 square foot warehouse, Sid Yog, the Managing Partner for the Xander Group, would also like to negotiate some kind of arrangement that gives him a favorable way to purchase the next 4 warehouses that will be built on 25 acres of adjoining land.

In addition to the case, please read the Jones Lang LaSalle report, “Indian Realty – Through the Looking Glass” (posted on LATTE) to get a feel for the Indian real estate market at the time of the case.

Assignment

In a 2-3 page essay (single spaced, Times New Roman, size 11, 1” margins all around, plus an attachment for your DCF or related analysis), please answer the following (do not answer the “study questions” found in the case.)

What are the key risks of investing in India?

1. Why does Ralhan want to sell the 130,000 sq. foot warehouse? How motivated a seller is he?

2. Why does Yog want to buy it?

3. How much should Yog offer for the DHL warehouse? Remember that the Xander Group’s required IRR is 20% (or higher). Please create a DCF based on case assumptions, including the two scenarios that Yog created for his assistants. When creating the DCF, please note that “Operating Expense” relates to the escalating maintenance charge. Also, note that warehouse rents step up in year 4, and open storage steps up in year 6. Assume a sale at the end of year 6. Build in a 3% sales commission.

4. If Yog negotiates a favorable price on the DHL warehouse but cannot agree on terms for the 25-acre expansion, should he buy the DHL warehouse or terminate all negotiations? Present both sides then come to a decision, one way or the other.