

Brazil: Opportunities in Real Estate Development, Investment, and Finance

“Attracting More Foreign Long-Term Investment”

Participants

- Moderator: **Stephen Blank**-Senior Fellow
ULI-the Urban Land Institute
- Panelists: **Daniel Citron**-CEO
Tishman Speyer Metodo
Desenvolvimento
Eion More Slavin-President/CEO
JonesLangLaSalle S/C Ltda
Benjamin Young-Director
Deutsche Bank Real Estate

Major Changes in the Real Estate Industry and Real Estate Capital Markets

Securitization

Globalization

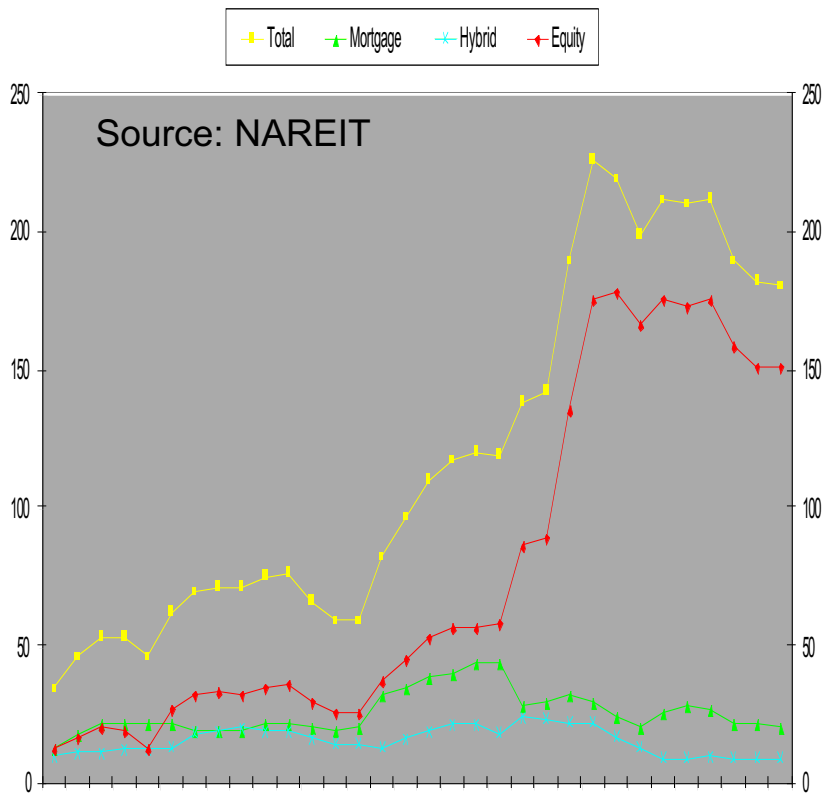
Consolidation

Technology

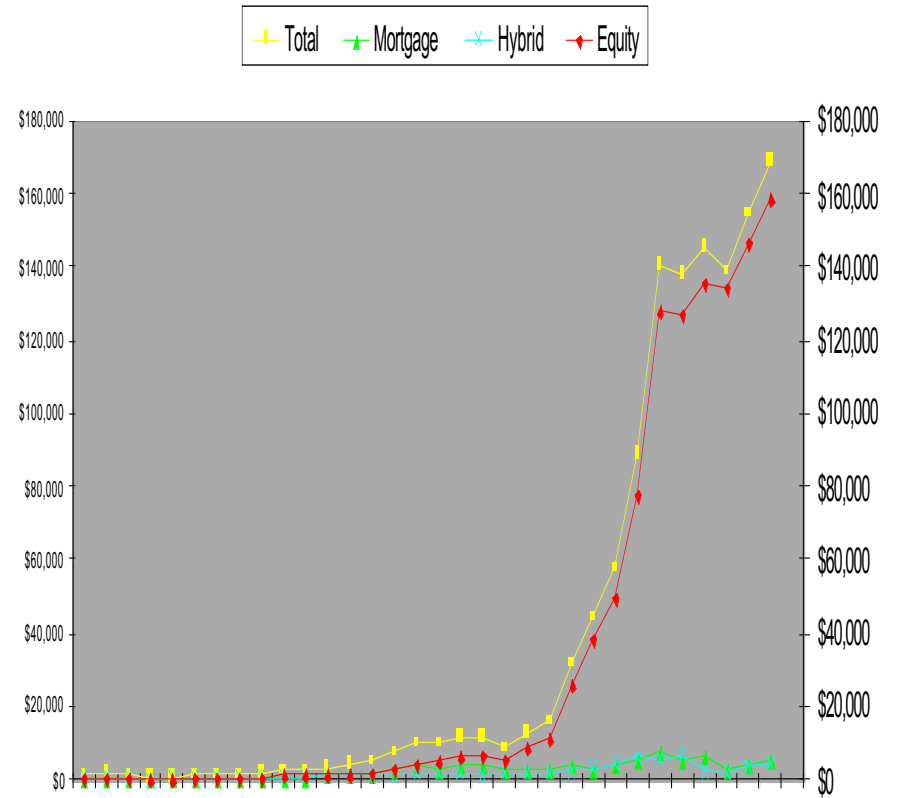
Combining the Real Estate Markets and the Securities Markets

- Transforming real estate from exclusively private market to market where private/public co-exist
- From illiquid to liquid, for both traditional and non-traditional assets
- Trading of real estate in securities markets sometimes disconnected from property market fundamentals, creating short-term “arbitrage” opportunities
 - It can be “cheaper” to “buy” real estate on Main Street than Wall Street, and visa versa

Growth in Number of Real Estate Investment Trusts, 1971 - 2002



Growth of Market Capitalization of REIT Industry, 1971 - 2002



Investment Characteristics of Public (Securitized) Real Estate

- Primary investment characteristics of public (securitized) real estate markets include
 - Liquidity
 - Security
 - Diversification

Public Ownership of U.S. Property Market

	1997	1998	1999	2000
Retail-Regional Malls	26.6%	30.7%	36.3%	34.1%
Lodging/Hospitality	16.8%	18.8%	18.8%	17.3%
Retail-Non-Mall	10.8%	12.6%	13.5%	13.2%
Multifamily Apartment	6.5%	7.9%	8.5%	8.0%
Office	5.5%	7.2%	8.0%	7.5%
Industrial/Warehouse	5.4%	6.6%	10.0%	9.5%

Source: Prudential Real Estate Investors

Public Ownership of Global Real Estate Market (in U.S. \$ Billions)

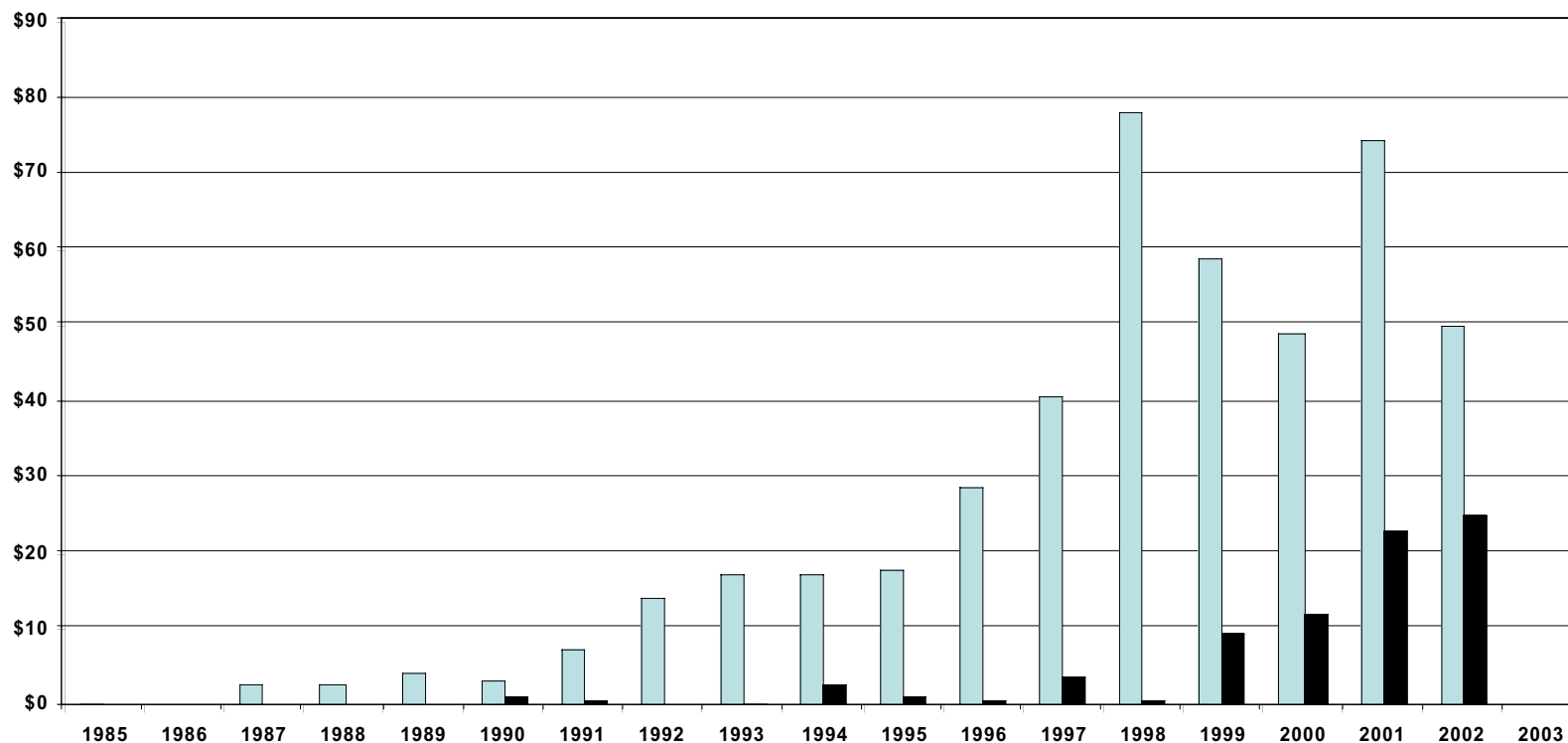
Region	Total Real Estate	Listed Real Estate	Listed as % of Total	% Global Share
Australia	\$38	\$21	55%	1%
North Amer.	1,598	288	18%	34%
South Amer.	50	n/a	n/a	1%
UK	361	60	17%	8%
Cont. Europe	1,262	32	3%	27%
S.E. Asia	825	90	11%	17%
Japan	600	61	10%	13%
Total	\$4,733	\$552	12%	100%

Source: UBS Warburg, AMP/Henderson Global Investors, PCA, NAREIT

South American Public Real Estate Offerings Next?

- Estimated South American real estate market equals \$50 billion U.S.
- Few public companies available for investment
- Pan South American REITs would
 - Facilitate sale-leaseback financing by industrial corporations, financial institutions, and insurance companies
 - Provide individual investors with diversified, low-risk, high yielding investments in income-producing real estate
 - Facilitate investment in real estate by domestic and off-shore institutional investors

Growth in Global Issuance of Commercial Mortgage-Backed Securities



Source: Morgan Stanley; Commercial Mortgage Alert (August 9, 2002) \$ Billions

Governing Principles of “User-Friendly Real Estate Equity/Debt Capital Markets

1. Strong Legal Structure-Legislation governs trading, banking, investor protection, and standardized documentation
2. Effective Governance and Prudential Oversight-
Corporate governance that ensures proper fiduciary responsibility and maintenance of prudent oversight

3. Accurate and Available Market Information-
Obligation for timely and accurate reporting and in-depth disclosure of market information so investors can accurately measure investment performance
4. Flexible Financial Structure-Ability to structure investments on a equity/debt basis which maximizes asset performance and investor returns
5. Preferred Taxation Treatment-No double taxation; flow through of dividends to shareholders without taxation at entity level

6. Professional Management and Independent Valuation Expertise-Recognition and adherence to professional standards and practices combined with arms-length appraisals and valuations
7. Globally Competitive Practices-No domestic protection or foreign investment controls that mitigate full participation in the global markets
8. Substantial Asset Security and Liquidity-Clear title to assets underpinning securities; no limitation on trading of securities on an exchange at open market prices

9. Enforceable Leases and Secure Income Streams-Standard lease documents that provide a legally enforceable obligation to pay rent or provide a regular cash flow or return on investment

10. Political Stability and Market Predictability- Consistent approach to finance and investment controls and market activity; no 180 degree swings on a moments notice-in effect, a long-term commitment to best practices

Practical Principles of “User-Friendly” Real Estate Equity/Debt Capital Markets

1. Industry Trade Groups

- Conferences, legislation, industry task forces, and industry studies and position papers
- Industry self-regulation and governance; industry group defines standards of doing business and rules for conducting business among industry members and non-members
- Visit www.nareit.com, www.cmbs.org for examples of real estate equity and debt trade associations

2. Education

- Basic and graduate level courses for owners and developers, borrowers and lenders, professionals (lawyers and accountants), and individual and institutional investors
- Text books with glossaries

3. Financial Models/Standardized Documents

- Commoditization of product

4. Market Makers and Traders

- Enhance liquidity
- Assist with market entry and exit strategies

5. Transparency and disclosure of information

- Full and complete disclosure of all material information

6. Structure

- Tax deferral through Up-REITs and down REITs
- Tranching, A-B notes, senior-subordinated structures, over-collateralization, etc.

7. Offerings which allow for diversification and portfolio building

- By segment-apartments, shopping centers, office buildings, industrial, lodging, leisure, entertainment
- Performing and non-performing mortgage loans
 - Fixed rate and floating rate
 - Interest only and amortizing

8. Analysts and Research coverage as well as third-party service providers

- Real estate securities analysts, institutional money managers, and mutual funds for individual investors
- Rating agencies such as Standard & Poor's
- Wide array of buyers of lower and non-rated tranches
- Loan servicers and third-party due diligence
- Real time indices of investment performance

9. Availability of Operating Risk Capital

- Acquisitions lines of credit; warehousing lines of credit for inventorying loans
- Secured (mortgage) and unsecured (corporate) finance
- Effective hedging strategies

10. Price Discovery and Securities Pricing Mechanisms

- Pricing at spreads over U.S. Treasuries, LIBOR, and/or local best practice
- Pricing mechanisms that mimic accepted products and standards