



# The Globalization of Real Estate Investment

October 15, 2007  
3:45 p.m.-5:00 p.m.

Focus on Latin America & Mexico

J. Kevin Fisher

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RESEARCH & CONSULTING

- Factors for Emerging Markets
- US / Brazil / México – a reference point
- Historic Perspective –  
*Needs, technology, housing & finance driving a market*
- Lessons for Emerging Markets

# Factors for Emerging Markets



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<b>Commercial Adequacy</b>	Household savings in relation to size of economy	Robust markets for new & used housing	Supply - consistent with households' income distribution
	<b>Economic Infrastructure</b>	Macroeconomic stability	Laws, underwriting systems & judicial proceedings

# Factors for Emerging Markets

<b>Capital Availability</b>	<b>Development of mortgage capital markets</b>	<b>Competition in primary mortgage market</b>	<b>New product development</b>
	<b>Household savings in relation to size of economy</b>	<b>Robust markets for new &amp; used housing</b>	<b>Supply - consistent with households' income distribution</b>
	<b>Macroeconomic stability</b>	<b>Laws, underwriting systems &amp; judicial proceedings</b>	<b>Information infrastructure to value credit &amp; collateral risk</b>
<b>Commercial Adequacy</b>			
<b>Economic Infrastructure</b>			

Wage growth has been slowing over the past five years

Worker benefits are down

(pensions - 50.3% in '06 to 43.2% today/ health insurance – 64.2% to 59.7%)

Household debt is rising

(families spent 14.3% of income on debt service, up from 13% in '01)

Mortgage foreclosures have increased to highest levels since 1979

The declines in housing markets continue to drag GDP downward

Government deficits are projected to increase sharply

Foreign investors bought 82% of our new Treasury debt

US foreign debt held surpassed 45% in early '07 up from 32% in '01

US has been on a steady decline against major currencies

The risk of a recession is now seen as 40% for 2008

Housing values in decline; housing equity in decline (total value of homes has increased by more than \$9 trillion, to \$22 trillion over the past 5 years)

# Snapshot – Brazil 2007



0 “Zero”/ “cero”/ “nada” – dependency on energy imports!

1 Most populous country in Latin America – 190 million people

2 Stage of Economic Development

3 Million dollars (approx) remitted to Brazil from the U.S.

4 Rank in GDP per capita in Latin America (\$8,700)

5 Rank in world population

9 % unemployment (approx)

11 Rank in GDP per capita in world

19 % of Brazilian exports go to U.S.

30 % of Brazilians (approx) live below poverty line

70 % of vehicles sold in Brazil have flex-fuel powered engines

1,000,000 – 1,200,000 Brazilians living in U.S.

# Snapshot – México 2007



1	Million U.S. citizens living in México
2	Largest oil supplier to U.S.
3	Rank in GDP per capital in Latin America (\$10,600)
5	Under 5% unemployment rate
11	Most populous country in world – 109 million people (2 <sup>nd</sup> in Latin America)
34	Billion dollars (approx) remitted to México from the U.S.
60	% Approval rating of President Calderon
400	# of Mexicans who die attempting cross borders to U.S.
700	Miles of fence (along the 1952 mile border) mandated by the Senate Fence Act in 2006
800,000	Average # of near homes needed per year through 2030
16,000,000	Mexicans living in U.S.

# GDP, PCI & Population Factors

Rank	Country	GDP (purchasing power parity)	Per capita	Population
1	European Union	\$13,080,000,000,000	\$ 26,671	490,426,060
2	United States	\$13,060,000,000,000	\$ 43,096	303,044,167
3	China	\$10,210,000,000,000	\$ 7,740	1,319,175,336
11	Brazil	\$1,655,000,000,000	\$ 8,710	190,010,647
14	Mexico	\$1,149,000,000,000	\$ 10,570	108,700,891
20	Argentina	\$608,800,000,000	\$ 15,106	40,301,927
28	Colombia	\$374,400,000,000	\$ 8,436	44,379,598
45	Chile	\$202,700,000,000	\$ 12,447	16,284,741
49	Peru	\$186,600,000,000	\$ 6,507	28,674,757
50	Venezuela	\$186,300,000,000	\$ 7,159	26,023,528
	<b>World</b>	<b>\$65,960,000,000,000</b>	<b>\$ 9,960</b>	<b>6,622,472,821</b>

# The Back Bay – 1810 to 2007

A convergence of needs, technology, housing & finance



# The Back Bay – 1810 to 1857



1810

1857



## Milestone

Boston was a peninsula with a growing immigrant population and expanding industry

**1814** MA legislature approved construction of a mill dam to cut off 430 acres of tidal flats

**1849** US Health Dept ordered the area be filled

**1857** September--Filling of the Back Bay began more than 450 acres filled

## Outgrowth

Overcrowding

Contamination of tidal basin, polluting the harbor; sewerage and disease plagued the city

Collaboration among local, state, federal governments with private sector to hold

Creation of city lots for high end residential

## Financial Implications

Transition from a colonial town to a modern city government

Wealthy families began leaving

Appeal to private sector to fund the creation of Back Bay land project.

4:1 financing - for 4 lots built out developers received 1

# The Back Bay – 1872 to 1900



1859

1889

## Milestone

**1859** Public Garden designated as open space; Arlington St Church was built

**1860** Filling of Back Bay reached Clarendon St; State granted a block to Boston Society of Natural History & MIT

**1861–1865** The Civil War

**1892** First playground designed by Olmsted-the Emerald Necklace park;  
**1897** - First subway in North America

## Outgrowth

Underscored the desires of community and a commitment to open space

Collaboration among institutions of higher learning and local leaders attracted the best minds

Social and industrial resources stretched in northern cities but commitment to the Back Bay development continued

Throughout the last half of the century, Boston's vision of public-good amenities secured financial value in the region

## Financial Implications

Commitment between public and private sector to finance community venues

Simultaneous-equation characteristic of financial growth continued – the people of attract jobs and jobs attract people

The emergence of philanthropy appear as the Boston financial world grows

Flow of money and ideas secured the emerged to many new housing concepts

# The Back Bay – 1925 to 2007



1900

2007

## Milestone

**1900** most of the Back Bay was completed

**1929 – 1934** The Great Depression

**1934** The New Deal/ FHA  
**1938** Fannie Mae

**1955** First designated Historic District  
 Beacon Hill, Back Bay and South End

**2007** Expansion continues

## Outgrowth

Community centered institutions and businesses thrived

Banking, real estate and mortgage lending industry came to its knees.

The 30-year fully amortizing fixed-rate loan program /lower monthly payments & 30-year amortization provided stability

The vision, planning and confidence originally conceived for Back Bay has stood the test of time

Housing affordability remains low in the area

## Financial Implications

Job creation/title & lean based mortgage practice grew

Values in the Back Bay dropped

America's mortgage and real estate industry was revolutionized

Securing the financial value for the future

# Lessons for Emerging Markets



- Housing - a strategic factor for economic and social growth
- Efficient and accessible housing finance enhances economic development, job growth and social mobility
- Well functioning mortgage markets provide a channel for savings, generate wealth and create new enterprises
- Housing policies that envision social and economic development is paramount to long-term sustainability

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**Prediction:** Emerging markets will innovative mortgage investment opportunities with a new classes of products and services to meet needs