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Homer Hoyt Institute

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Don't Panic Yet: Strategies Emerging to Deal with Subprime Crisis

**A Research Roundtable co-sponsored by the Homer Hoyt Institute (HHI),
University of Pennsylvania Urban Research Institute, the Hudson Institute,
and the Institute for Public Policy at George Washington University**

Don't panic yet! Strategies are emerging to deal with the subprime mortgage crisis. A broad spectrum of options was discussed at a research roundtable sponsored by the Homer Hoyt Institute in conjunction with the Hudson Institute, the Institute for Urban Research at the University of Pennsylvania, and the Institute for Public Policy at George Washington University. The roundtable was held at the Hudson Institute in Washington, D.C., on October 24, 2007.

subprime ARMs that will automatically reset to higher interest rates and payments after two or three years; (2) the appropriate policies and actions to prevent or minimize the risk of a repetition in the foreseeable future. Current policy attention is directed largely toward the first of these issues, but it is reasonable to anticipate that the second will attract more attention over time. Participants at the conference discussed both aspects in detail.

In addition, recognizing that all housing markets are local, the sponsoring institutes noted that the problems confronting current homeowners, and the solutions, should be studied as both local and national issues, and an appropriate research agenda should include both. *(Continued on page 2)*



L-R (Top): Maury Seldin, Susan Wachter, John Weicher, Richard Green/ L-R (Bottom): Jack M. Guttenberg, Patricia McCoy, Steven Westley and Mark Zandi *Photo courtesy of Hudson Institute*

The roundtable included presentations and discussions ranging from the causes of the crisis, a variety of proposals to deal with it and prevent it from recurring in the future, and the outlook for the mortgage markets and the US economy.

In convening the conference, the sponsoring institutes noted that the subprime mortgage crisis has two aspects: (1) the problems confronting homeowners who are unable to meet their mortgage payments, notably those with

Maury Seldin Advanced Studies Institute
*Developing and Disseminating the
Body of Knowledge in Real Estate*



Hoyt Fellows, LLC
*Bridging Industry and Academia
With the Advanced Studies Institute*

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Steven Westley, Director of Financial Markets and Community Investment at the US Government Accountability Office, presented “An Overview of the Subprime Mortgage Crisis.” Mr. Westley charted the growth of the subprime market and recent trends in foreclosures. He pointed out that defaults and foreclosures have been rising very rapidly among subprime ARM mortgages, but have not been rising for subprime fixed-rate mortgages or for prime mortgages. He also noted that the quality of subprime loan originations has been deteriorated steadily, quarter by quarter, over the last two years; each



L-R Susan Wachter, Richard Green, John Weicher, Maury Seldin and Steven Westley *Photo courtesy of Michael Hoyt*

quarter's new loans have performed worse than the loans originated in the previous quarter. More and more loans have included risky features such as high LTV ratios, piggyback loans, and hybrid 2/28 mortgages with automatic resets that raise borrowers' costs sharply after two years. Problems have been most acute in growing states such as Nevada, California and Florida, and also in the industrial Midwest, in communities with economic ties to the automobile industry. Mr. Westley attributed the current problems to the much slower rate of price appreciation in many markets and the growth of subprime mortgage securitization, as well as aggressive lending practices. He further mentioned misaligned incentives and the lack of accountability in the origination and distribution of mortgages: originators have financial incentives to increase loan volume, potentially at the expense of loan quality, and expressed concern about the weak regulation of nonbank lenders.



October 24th, 2007 Research Roundtable session *Photo courtesy of Michael Hoyt*

Two widely diverse proposals for addressing the problem were presented. University of Connecticut School of Law Professor Patricia McCoy, whose research examines systemic risk and market failure in predatory lending, asked the question, “What Now?” and called for federal regulation to eliminate shoddy underwriting, not only of subprime mortgages but also prime ARMs with potentially severe payment shock and negative amortization loans. She also favored strengthening the legal rights of borrowers. Lender violations of federal underwriting standards for ability to pay and verification of income should be a defense against all foreclosures, and borrowers should be able to sue lenders for violating the standards. She concluded with a parting question: “What kind of society do we live in and what level of defaults are we willing to accept?” – in individual states and local markets, and in poor and predominantly minority neighborhoods.

By way of contrast, University of Pennsylvania Professor Emeritus of Finance Jack M. Guttentag, whose weekly column, “The Mortgage Professor,” appears in many newspapers, offered proposals for “Fixing the Sub-Prime Market.” Dr. Guttentag stressed the need to eliminate contagious credit shocks to investors, and felt that default spikes were outweighing the benefits of having a subprime market. He advocated creating “Sub-Prime Mortgage-Backed Securities,” (SPMBS), with borrowers being certified as subprime by mortgage counselors, and with subprime loans carrying cash-flow insurance from private mortgage insurance companies (PMIs). The SPMBS would also carry a Ginnie Mae guarantee. *(Continued on Page 3)*

Don't Panic Yet: Strategies Emerging to Deal with Subprime Crisis *(Continued from page 2)*

Contagious credit shocks would be eliminated, and PMIs would monitor underwriting practices to protect themselves, and eliminate sloppy underwriting. He predicted that mainstream lenders would enter the subprime market with these reforms, and the “fast-buck guys” would leave.

Both Professor McCoy and Dr. Guttentag recommended amending the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA) so that borrowers would understand the terms of their loans before they made a commitment, and lenders would make firm offers, including rate locks.



October 24th Research Roundtable in session.

Photo courtesy of Michael Hoyt.



Also attending the session, pictured on the left above, Amy Crews Cutts, Deputy Chief Economist, Freddie Mac.

Photo courtesy of Michael Hoyt

In order to enhance the quality of policy decisions, a better understanding of the system is required. Such an understanding is enhanced by research, and data are critical for rigorous research. The luncheon speaker was Dr. Mark Zandi, Chief Economist and co-founder of Moody's Economy.com, Inc., where he directs the company's research and consulting activities. His recent areas of research include studying the determinants of mortgage foreclosure and assessments of the appropriate policy response to bubbles in asset markets. He documented the impact of the subprime crisis on financial markets and projected price declines in many local housing markets, particularly in California, Nevada, Arizona, and much of Florida, and also around Boston, Washington, and Detroit. He also projected a deterioration in the overall US labor market. In

response to a question, Dr. Zandi estimated about a one-third probability of a recession in the next year.

Developing effective strategies to deal with the issues requires stepping away from superficial public arguments and identifying a research agenda that would enhance understanding of likely outcomes of different policies. Much of the discussion to this point was on institutional reform to prevent similar disruptions in the future. But, attention shifted to focusing on the short term problems. Part of that is dealing with the teaser rate escalations that are kicking in and that will generate more foreclosures. Another part is the potential cascading effect; a recent *New York Times* article described cascading as it occurred in the Cleveland suburb of Maple Heights, Ohio.

The research roundtable discussion then turned to efforts in developing a research agenda to provide the understanding necessary to facilitate a variety of effective alternative strategies. Since strategies will differ with underlying values and political perspectives, the research roundtable was designed to reflect the diversity of perspectives among housing and mortgage market participants and in American society. In part this was done by the selection of the co-chairs for the Research Roundtable, Dr. Susan Wachter and Dr. John Weicher.

Dr. Wachter, a chaired University of Pennsylvania professor, is Co-Director of the University of Pennsylvania Institute for Urban Research. Dr. Wachter served in HUD as Assistant *(Continued on page 4)*

Don't Panic Yet: Strategies Emerging to Deal with Subprime Crisis (Continued from page 3)

Secretary for Policy Development and Research under a Democratic administration. Dr. Weicher is Director of Hudson Institute's Center for Housing and Financial Markets. He served as Assistant Secretary for Policy Development and Research at HUD under a Republican administration. They were invited to co-chair and to co-sponsor the roundtable by Dr. Maury Seldin, Chairman of the Homer Hoyt Institute, as part of an ongoing effort dedicated to improving the quality of real estate decisions.



Other participants in the Research Roundtable session
Photo courtesy of Michael Hoyt

Also participating in the creation of the Research Roundtable was Professor Richard Green of George Washington University. Drs. Green, Wachter and Weicher are faculty members of the Weimer School of Advanced Studies in Real Estate and Land Economics, the international leader in post-doctoral



More participants of the research Roundtable
Photo courtesy of Michael Hoyt

education in real estate and closely related areas. Dr. Green will lead the May Session of the Weimer School which will focus on presenting the papers most significant to the development of effective alternative strategies for dealing with the subprime fiasco.



L-R Susan Wachter, Richard Green and John Weicher
Photo courtesy of Michael Hoyt

The research agenda, which is in the process of being developed based on the discussions at the research roundtable, will be vetted at the January Session of the Weimer School. It will be supported by the Homer Hoyt Institute and others who have expressed interest in participating. A plenary session and regular sessions on the topic will be held at the Annual Meeting of the American Real Estate Society for avoiding and dealing with debacles such as that generated by the subprime situation.

The audio tape of the research roundtable and the presentations of the speakers are available on the Hudson Institute website at:

http://www.hudson.org/index.cfm?fuseaction=HUDSON_upcoming_events&id=458.

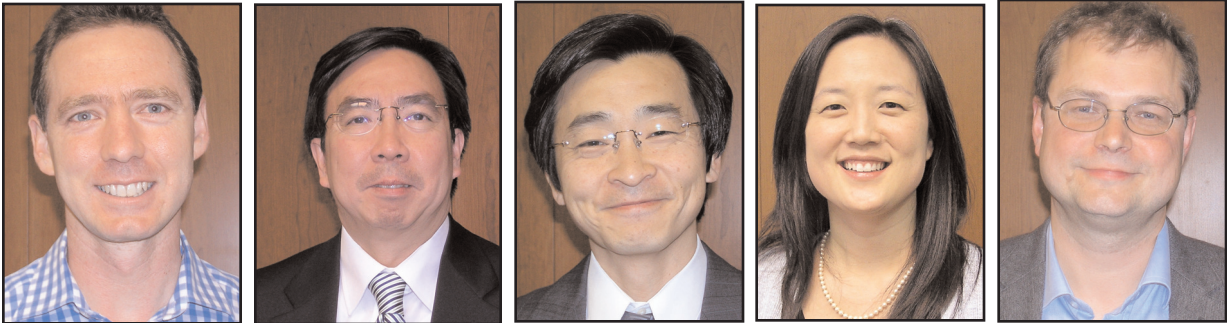
Further information on the roundtable is on the Homer Hoyt Institute web site at:

<http://www.hoyt.org/subprime/index.html>

The site includes the results of a literature survey and other related items as follows.

- Introduction
- Literature Review and Commentary
- Research Roundtable
- Research Projects
- Don't Panic Yet

An Excellent May 17-20, 2007 Hoyt Fellows – Weimer School Session



Five of the May 2007 Weimer School presenters are shown above L-R: Dr. Shaun Bond, Dr. Yu-Hung Hong, Dr. Min Hwang, Dr. Annette Kim and Dr. Mats Wilhelmsson

Approximately 50 Hoyt Fellows, Weimer School Fellows, Faculty and Post Doctoral Honorees attended the May 2007 Hoyt Fellows-Weimer School session. Hoyt Fellow Paige Mueller (GIC Real Estate, Inc.) arranged an outstanding Hoyt Fellows program. Topics included a panel discussion on **Real Estate Derivatives**, which was moderated by Jeff Havsy (Property & Portfolio Research, Inc.) with panelists Doug Poutasse (NCREIF), Bob White, (Real Capital Analytics), Larry Souza (GRA Global – Charles Schwab Investment Management) and Jeff Fisher (Indiana University). **The Outlook for U.S. Real Estate Markets** was analyzed by Robert Bach (Grubb & Ellis Company). Keith Pauley (LaSalle Investment Management Securities) provided insights into **REIT** pricing and volatility. Rob Gidel (Liberty Partners) discussed the movement of **hedge funds and private equity firms** into real estate, and Steve LaPosa (PricewaterhouseCoopers, LLP) explained how **international business research** can be used to benefit real estate portfolios.

Globalization was the theme for the Weimer School session, organized by Steve Malpezzi, assisted by John Quigley and Susan Wachter. Presenters included Alain Bertaud (Consultant – World Bank), “**Spatial Patterns of Real Estate Development: China in Perspective**”; Matt Turner (University of Toronto), “**Urban Growth and Transportation**”; Andrey Pavlov (The Wharton School, University of Pennsylvania), “**Underpriced Lending and Real Estate Markets**”; J. Timothy Morris (Morgan Stanley), “**Perspectives on Global Real Estate Investment**”; Desmond Tsang (McGill University), “**Global Financial Integration and Real Estate Returns**”; Shaun Bond (Cambridge University), “**Forecasting UK Commercial Real Estate Returns**”; Yu-Hung Hong (Lincoln Institute of Land Policy), “**Dealing with Holdouts in Real Estate Development: An International Perspective**”; Annette Kim (Massachusetts Institute of Technology), “**Learning to be Capitalists: The Social Construction of a Real Estate Market in Vietnam**”; Min Hwang (George Washington University), “**Price Discovery in Time and Space: The Singapore Condo Market**”; and Mats Wilhelmsson (Royal Institute of Technology – Sweden), “**Network Externalities**”.

2007 Weimer School Post Doctoral Honorees.

Three post-doctoral honorees presented research papers at the May session. Brent C. Smith (Virginia Commonwealth University) spoke on “**The Interaction between Local Economic Development Policy and Real Estate Markets: Evidence from Tax Increment Finance Districts**”. Christian L. Redfearn (University of Southern California) gave a paper, entitled “**Determinacy in Urban Form: Fixed Investment & Path Dependence in Urban Areas**”. Albert Saiz (Wharton School) spoke on “**Immigrants, Hispanics, and Housing Dynamics**”.

Abstracts of Weimer School and Post Doctoral presentations appear on pages 11-14.

New Hoyt Fellows



Eight Hoyt Fellows were inducted at the Hoyt Fellows session in May, 2007. Six of the new Hoyt Fellows are shown above with Dr. Jeff Fisher, Manager, Hoyt Fellows LLC (center). Dr. David Lynn and Hans Nordby were inducted in absentia. From left to right, they are:

Mr. John Baczewski, CPA, is President of Real Estate Fiduciary Services, LLC (REFS), which provides independent and co-fiduciary services to institutional and individual investors including the development, implementation and monitoring of real estate investment strategies aligned with overall asset allocation and investment objectives. At REFS, which he founded in 2005, his responsibilities include investment, portfolio, asset and transaction management.

Mr. Larry A. Souza is a Managing Director, Research and Economist with Charles Schwab Investment Management. Prior to joining GRA, he was a principal at Johnson/Souza Group, Inc. and Quantum Advisors (QA3) providing economic and investment consulting and advisory services to retail and institutional real estate investors.

Mr. Steve Felix is Senior Vice President & Director of New Business Development for Institutional Real Estate, Inc., and Associate Publisher of *The Institutional Real Estate Letter – Europe*. He also serves as Senior Consultant to IREI's clients in the U.S., Canada and Europe. Steve is Co-Executive Producer of IREI's Dealmakers and VIP Conferences and authors a weekly e-mail column called *On the Road with Steve Felix*, which is read by almost 9,000 people worldwide.

Dr. Dan Kohlhepp is President of the Crescent Resources LLC Commercial Division. Dan is responsible for all of Crescent's development activities for mixed-use, office, warehouse/distribution, and retail. He has recently completed the award winning development of Potomac Yard, a 300-acre, mixed-use, urban in-fill project in Northern Virginia.

Mr. Robert Bach, (Senior Vice President, Research and Client Services, Grubb and Ellis). Robert is national director of market analysis for Grubb and Ellis, preparing the national market publications and cooperating in local market research

Dr. Bill Hughes, CFA, CRE, is the Head of Research for UBS Global Asset Management. He is responsible for providing economic, capital market and real estate market analyses in both private and public real estate investments, as well as developing investment strategies and conducting portfolio analysis. (*Continued on Page 7*)

New Hoyt Fellows
(Continued)

Dr. David Lynn (not shown) is Managing Director of Research and Investment Strategy at ING Clarion. His fourteen member team is responsible for providing market intelligence, new market and product identification and development, portfolio management, and investment recommendations firm-wide. Dr. Lynn has 20 years of experience in research, investment strategy, property development (sourcing, structuring, entitling, and construction), equity investment (acquisitions, underwriting, and disposition), product design and portfolio management in the Class A multifamily, retail, office, mixed-use, hotel and industrial sectors in the United States and major international markets in Asia, Europe and Latin America.

Mr. Hans Nordby (not shown) monitors U.S. property markets and trends and is a key advisor to Property and Portfolio Research's clients, who include large public and private pension funds, pension fund advisors, investment banks, rating agencies, real estate developers, and REITs. Hans uses his extensive knowledge of micromarket research, capital markets transactions, asset management, and other real-world applications in his work with the firm's forecasts, products, and client relationships.

Mark Your Calendars Now for the January 17-21, 2008 Weimer School Session

The January 17-21, 2008 session of the Weimer School will be held at our North Palm Beach, Florida campus. Look for the registrations materials later this Fall. Please return your registration and room reservation requests as soon as possible. ASI has a number of rooms reserved at the Hilton Resort – Singer Island, but demand is strong during the season and an early guarantee is required by the hotel.

Candidates who are presenting in 2008 to complete the requirements to become a Weimer School Fellow are: Dr. Walter Torous (University of California – Los Angeles), Dr. François Ortalo-Magné (University of Wisconsin – Madison), Dr. Danny Ben-Shahar (Technion – Israel Institute of Technology), Dr. Denise DePasquale (President, City Research), Dr. David Downs (Virginia Commonwealth University), Dr. Robin Dubin (Case Western University) and Dr. James Clayton (Pension Real Estate Association -PREA).

The incoming Class of 2008-2009 are: Dr. Alex Anas (SUNY – Buffalo), Dr. Edward Coulson (Pennsylvania State University), Dr. Ingrid Ellen (New York University), Dr. Katherine O'Regan (New York University), Dr. Todd Sinai (University of Pennsylvania), Dr. Dogan Tirtiroglu (Concordia University) and Dr. Geoffrey K. Turnbull (Georgia State University).

Special Session on Subprime Mortgage Issues.

In addition to Fellow candidate presentations, the agenda for January will have a special session on evolving subprime mortgage issues. The session will be informally co-chaired by Weimer School faculty emeritus Dr. John Weicher and faculty member, Dr. Susan Wachter. The dialogue begun in a research roundtable co-sponsored by the Homer Hoyt Institute, the Hudson Institute, the University of Pennsylvania Institute of Urban Research and the George Washington University Institute for Public Policy on the current and prospective mortgage market issues will be continued in this special session.

Hoyt Institute for Real Estate (HIRE) Moving Forward

By Norm Miller , HIRE President, and Ron Donohue, HIRE V.P.

Background

Based on discussions held at the Homer Hoyt Institute in 2003 and 2004, *The Development Industry Trends Task Force* of NAIOP in October 2003 and the 2004 ARES Conference Panel on *Enhancing the Brand Image of Commercial Real Estate and Increasing the Attraction of the Real Estate Major*,¹ industry thought-leaders are in agreement that there is a need for better promotion and advocacy of real estate at the roots level. We developed the following objectives that led to formalization of the HIRE reborn from the former Hoyt Institute of Maryland.

1. Enhance the image and appeal of commercial real estate as a career path.
2. Improve the attraction of the best and brightest students into real estate programs at both universities and trade associations.
3. Attempt to increase the diversity of real estate professionals by exposing minorities to the commercial real estate industry as early as possible.
4. Provide inexpensive or free information to career influencing counselors, directly to the public and to existing real estate professionals on university and trade association opportunities for education, continuing education and resources that serve the real estate professionals.
5. Provide a mechanism for professionals to mentor aspiring professionals or students that are interested in the real estate industry.

Results

\$55,000 was raised from CoStar, the University of Cincinnati, the Appraisal Institute, CCIM, NAIOP, and PREA to help launch a book, website and new marketing effort. As of mid summer, 2007, we have produced a paperback book that contains information on many universities with real estate programs, trade associations that provide education to professionals and a series of professional interviews that provide career advice. Alison Sampson, Will Sikes and Norm Miller put together the general contents with Margot Weinstein providing the interviews. Interviews include notables like Sam Zell and Peter Linneman as well as many others. Recent interviews of Dan Kolhhepp and Ron Kaiser will be included in future editions of the book and also on line.

This book is now available at Amazon.com under the title *Commercial Real Estate Career Education and Resource Guide*. It is also available in bulk orders from HIRE directly. Will Sikes from the University of Cincinnati attended a few high school academic counselor conferences and provided free copies to those counselors who advise students on career paths and college programs. He has been the main staff for this project along with Carol Reynolds at HHI. We have also developed a web site and this is found at www.realcareers.org We expect the web site to become the primary vehicle for disseminating our resources over the long run but for those who know nothing about commercial real estate, like most high school counselors, a “free” book seems to be the best way to get them to even think about the possibilities. In turn we hope they will consider looking at the web site. *(Continued on Page 9)*

¹Jim Delisle, Margot Weinstein, Geoff Dohrmann, Maury Seldin, Larry Wofford, Roy Black, Stephen Roulac, Susanne Cannon and many others have contributed to discussions that led to this effort.

Hoyt Institute for Real Estate (HIRE) Moving Forward

Continued

Real Estate Summer Camps for High Schoolers

At the University of Cincinnati Real Estate Center under the guidance of Alison Sampson and Will Sikes several top high schools in the region were contacted for generating applications for a multiple day summer camp. In 2006 students were brought in from around Ohio for a short one day camp. These were honor student candidates that were both highly diverse and strong academically. Most had not heard much about real estate and after a session of games, challenges, cases and team exercises some new applicants were surely generated. This effort was expanded and repeated in 2007 and resources like www.realcareers.org were promoted. Speakers and team exercises were the format once again and having fun was a high priority. We are hoping to be able to generate a model that other universities may consider as a way to attract the best students and also improve diversity within the existing real estate programs. Colliers International and CREW have been very supportive of these efforts to date.

The Future and Plans

The web site has one more phase to be completed. It is the most ambitious part of the web site in that it involves a nationwide search and matching system where those seeking mentors and those wishing to be mentors can find each other within search criteria that includes geography and interests. We expect NAIOP, CREW and CoStar and others to help in promoting this web site feature once it is complete and launched in the early fall of 2007. At that time we will be seeking assistance from the existing sponsors and others to help make professionals and students aware of this resource. We will be writing press releases and trying to get professionals to sign up to be mentors. We expect this process will be easy and we are certain to have support from NAIOP, CREW, CCIM and CoStar in terms of spreading the word or accommodating us at meetings should we decide to use exhibit booth space. The harder part will be getting students to sign up to be mentored since this takes efforts on the part of Professors and in general we have found most Professors to be rather lackadaisical about spreading the word on existing resources that help students. Still a few Professors will help and eventually a few students will spread the word. We do hope that all those associated with the MSASI and Hoyt and Weimer Fellows will assist in spreading the word of this great resource.

Modest Investments With a Huge Payoff

At present, and with a recent grant from the ARES Foundation and the University of Cincinnati, we should be able to complete the web site mentoring system. We continue to sell books which brings in a little revenue and most of the labor for this project has been voluntary. Yet, we would like to go on the road and staff some exhibit booths that promote this mentoring concept as well as the website and book with the hope that we can print more books and give them to more high school counselors and others who influence the career choice of young people. This is not to say that we don't have sufficient demand for real estate courses but why not increase the pool from which future professionals are selected and attempt to improve the quality of those professionals entering the profession? We are currently approaching CREW and others asking for additional sponsorships. We do not see book sales as funding the entire effort going forward so we will continue to need some funding. But the potential impact is huge and this could be one of the most visible public efforts ever undertaken by a Hoyt related entity.

Hoyt Institute for Real Estate (HIRE) Moving Forward

Continued

Please take a look at the website and watch for the launch of the mentor section soon. If you wish to become a sponsor and help or simply wish to make suggestions please let us know. If you wish to help with local programs please let us know the results. Our future plans involve sharing what we have learned and trying to get the Professors to take a little more initiative in helping to add diversity and improve the brand image of real estate as a career path. In the long run this is one of the best ways we can improve the quality of land use decisions, a major goal of the Homer Hoyt Institute and the Maury Seldin Advanced Studies Institute.

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The ASI Silver Anniversary Campaign: A Successful Conclusion!

Our thanks to Hoyt Fellows, Weimer School Fellows and Faculty, the Hoyt Group administration and friends who contributed to the success of the ASI Silver Anniversary Campaign, commemorating the first 25 years of the Homer Hoyt Advanced Studies Institute (now renamed in honor of Dr. Maury Seldin, founding President and Chairman Emeritus). A total of \$102,600 was contributed, with \$47,900 given directly to ASI, \$32,200 to HHI, and \$22,500 to Hoyt Fellows LLC. Your donations affirm your belief in our mission and programs.

We ask that you please continue to remember MSASI, HHI and the Hoyt Fellows LLC when planning your annual giving!

Property Donations

HHI actively solicits gifts of real property interests

The administration of HHI would be pleased to discuss the financial and non-financial benefits of a donation with any interested individuals or organization. Transfer may be part gift and part sale. Such gifts support real estate education and research through the Homer Hoyt Institute and the Maury Seldin Advanced Studies Institute.

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Abstracts of Weimer School and Post Doctoral Presentations

“An Analysis of Commercial Real Estate Returns: Is there a Smoothing Puzzle?”

by Dr. Shaun Bond

In this paper we investigate the commonly used autoregressive filter method of adjusting appraisal-based real estate returns to correct for the perceived biases induced in the appraisal process. Since the early work by Geltner (1989), many papers have been written on this topic but remarkably few have considered the relationship between smoothing at the individual property level and the amount of persistence in the aggregate appraised-based index. To investigate this issue in more detail we analyze a sample of individual-property level appraisal data from the Investment Property Database (IPD). We find that commonly used unsmoothing estimates overstate the extent of smoothing that takes place at the individual property level. There is also strong support for an ARFIMA representation of appraisal returns.

“Spatial Patterns of Real Estate Development: China in Perspective”

by Dr. Alain Bertaud

An incomplete transition toward markets is the source of most land issues in China. The Chinese government is mostly concerned with what is perceived as an excessive extension of urban land at the expense of agricultural land. In addition, the excessive allocation of land for industries and the possible inefficiency of urban land use and transport networks are also causes of concern.

In spite of these shortcomings, the urbanization process in China has been extremely impressive over the last few years. The rapid construction of a high quality primary infrastructure network has been keeping pace with urbanization and has fed the real estate market with a steady supply of developed land. Over the past 20 years the urban residential floor space per capita has more than doubled in most cities, at time even trebled. The successful privatizing of most of the housing stock has provided a buoyant apartment market. And finally, an efficient solid waste collection system has greatly improved the quality of the urban environment, while the problem of urban air pollution due to transport, industry and new construction is now being addressed earnestly.

“Price Discovery in Time and Space: The Singapore Condo Market”

by Dr. Min Hwang

It is widely accepted that aggregate housing prices are predictable, but that excess returns to investors are precluded by the transaction costs of buying and selling property. We reexamine this issue, modeling directly the price discovery process for individual dwellings. The empirical results clearly reject random walks, supporting mean reversion in housing prices and diffusion of innovations over space. Moreover, when aggregate returns are computed from models that erroneously assume a random walk and spatial independence, we find that they are strongly autocorrelated. However, when they are calculated from the appropriate model, predictability in investment returns is completely absent. We conduct extensive simulations, over different time horizons and with different investment rules, testing whether better information on housing price dynamics leads to increased investor returns. We establish that the illiquid nature of the housing market precludes realization of trading gains based on knowledge of market dynamics.

“Learning to Be Capitalists: “The Social Construction of a Real Estate Market in Vietnam”

by Dr. Annette Kim

Dr. Kim spoke from her forthcoming book, *Learning to be Capitalists: the social construction of a market economy in Vietnam*. The book provides a detailed account of the first generation of real estate entrepreneurs in Ho Chi Minh City. Vietnam is an important case because while experts like Jones, Lang, Lasalle rank it as having the most inhospitable environment for real estate investment, private real estate development is thriving and Vietnam is currently the second fastest growing economy in the world after China. She recounted how the new Vietnamese land developers form projects, make deals and decisions, and work with others to engage in wholly new economic behavior. *Continued on Page 12*

Through comparative research to Hanoi and Warsaw, her book shows how capitalism is not natural but learned. The transition to a private real estate markets involved a major cognitive shift that was shaped uniquely by each society rather than simply about the state and official policy reforms. The social cognition lens helps us understand how market capitalism developed so rapidly and differently in Vietnam, why political connections and financial resources were not enough to determine the success of firms, why private firms did not emerge as readily in Hanoi as they did in Ho Chi Minh City within Vietnam, and why developers in Warsaw, Poland do not socialize and collaborate like they do in Ho Chi Minh City.

“Global Real Estate Investing Environment”

Firm: Morgan Stanley Real Estate

Author: Mr. J. Timothy Morris

The paper covers key considerations on global (international) real estate investing, including why do it?, where to do it?, how to do it?, and when to do it? Briefly, the low levels of securitization of commercial real estate globally, the higher risk adjusted returns and enhanced absolute returns vs. U.S. opportunities, together with portfolio correlation benefits provide the why to do international investing. The potential in large, liquid economies in Western Europe and Asia, plus certain opportunities in Mexico, is discussed with emphasis on The United Kingdom, France, Germany and Italy.

“Underpriced Lending and Real Estate Markets”

By Dr. Andrey Pavlov and Dr. Susan Wachter

In this paper we offer direct evidence that financial intermediation does impact underlying asset markets. We develop a specific observable symptom of a banking system that underprices the default spread in non-recourse asset-backed lending. Using two different data sets for 29 countries and property types, we find that, following a negative demand shock, the “underpricing” economies experience far deeper asset market crashes than economies in which the put option is correctly priced. Furthermore, only one of the countries in our sample continues to exhibit the underpricing symptom following a market crash. This indicates that market crashes have a cleansing effect and eliminate underpricing at least for a period of time. This makes investing in such markets safer following a negative demand shock.

“Aggressive Lending and Real Estate Markets”

by Dr. Andrey Pavlov

This paper establishes a theoretical and empirical link between the use of aggressive mortgage lending instruments, such as interest only, negative amortization or subprime, mortgages and the underlying house price volatility. Such instruments, which come into existence through innovation or financial deregulation, allow more borrowing than otherwise would occur. Within the context of a general equilibrium model with borrowing constraints, we demonstrate that the supply of aggressive lending instruments increases the asset prices in the underlying market because borrowers use these instruments to further leverage their current income. The aggressive lending instruments effectively relax borrowing constraints otherwise faced by prospective homeowners. Furthermore, in our model when lenders rationally re-price mortgage instruments following a negative demand shock, we show that the relative use of aggressive lending instruments declines. These two results imply that the availability of aggressive mortgage lending instruments magnifies the real estate cycle and the effects of large negative demand shocks.

Using both local and national price index data we empirically confirm the predictions of the model. In particular, we find that neighborhoods and cities that experienced a high concentration of aggressive lending instruments at their respective real estate market peaks suffered more severe price declines and a lower supply of aggressive instruments following a negative demand shock. Overall, we find that the fluctuation of supply of aggressive lending instruments increases the volatility of the underlying asset prices over the course of the market cycle.

“Global Financial Integration and Real Estate Returns”

by Dr. Desmond Tsang

Have globalization and increasing economic and financial integration affected the rates of return of publicly traded real estate companies around the world? Using a set of multi-factor models for annual data for 946 firms from 16 countries over the sample period, 1995-2002, we estimate the impact of a country's economic openness on returns of publicly traded real estate firms, controlling for the effects of global capital markets, domestic macro-economic conditions, and firm-specific variables. We find that a country's real estate security excess (risk-adjusted) returns are negatively related to its openness. The results are robust across different multi-factor model specifications, and suggest that real property market efficiency may have been enhanced for non-tradable goods such as real estate in globalizing economies.

“Urban Growth and Transportation”

Dr. Gilles Duranton and Dr. Matthew A. Turner

We study the effect of a city's stock of roads or public transit in 1980 on population and employment growth over the succeeding 20 years, on changes in demographics over the succeeding 20 years, and on changes in industrial specialization over the succeeding 20 years.

- a 10% larger stock of roads causes about a 2% increase in population and employment over 20 years; causes a marked decrease in the share of city residents who are poor; has no effect on the composition of industrial activity conducted in the city.
- a 10% larger stock of large buses causes about a 0.7% population and employment increase over 20 years; causes a marked increase in the share of city residents who are poor; has no effect on composition of industrial activity in the city.
- a road assigned to a city at random is associated with a larger increase in population or employment than is a road assigned to a city by the prevailing political process. This is consistent with other evidence that an important function of infrastructure spending is ‘make-work’, rather than the provision of transportation capacity.

This research begins the project of providing an empirical assessment of the effects of infrastructure spending on the growth of cities, and thereby opens the door to an assessment of the wisdom of proposed infrastructure expenditures. In particular, given the low cost of increasing transit infrastructure relative to the cost of road infrastructure, this suggests that buses are an extremely cost effective way to increase the capacity of a city's transportation network

Secondly, while the topic is now attracting interest, there has been little attention to the relationship between transportation costs and economic growth. As cities provide an interesting environment in which to study this problem, our results provide some further insight into the relationship between transportation and economic growth.

Finally, this research is important to furthering our understanding of how cities operate and grow. Transportation costs are among the most fundamental quantities in theoretical models of cities. However, only a few papers provide empirical evidence for the role transportation costs in shaping cities. Thus, our results provide a sounder footing for an important class of theoretical models that rest on surprisingly shaky empirical foundations.

“The Spatial Distribution of Innovation Networks”

by Dr. Mats Wilhelmsson

Innovation networking has become more feasible with improved telecommunication and more important as it normally produces research of higher quality. However, the spatial distribution of academic networks and innovative networks are not uniform. We investigate patent data from 1994-2001 in Sweden and although overwhelming evidences on the benefits of collaboration, innovation networks are not very common. Contrarily, the pattern of innovative networks is very fragmented. Our results indicate that innovation networks are more likely to exist in densely populated areas with a diversified industry. Face-to-face contacts in such areas seem to promote networking. Moreover, science-oriented industries appear to benefit more from proximity to university when it comes to collaboration. However, the size of the market does not matter at all when it comes to collaboration, rather the density and diversity of the market.

“Determinacy in Urban Form: Fixed Investment & Path Dependence in the Spatial Distribution of Metropolitan Employment”

Dr. Christian L. Redfearn

Currently the economics of agglomeration receives a great deal of research attention, focusing on a variety of externalities to explain the evolution of cities. Much of this research is historical, with little attention paid to the cumulative history of investment decisions that are manifested in the urban form researchers seek to understand. This paper addresses path dependence in the location of economic activity within the Los Angeles metropolitan area and presents evidence that during a remarkably dynamic period – in terms of the growth and transformation of the region’s population and employment, as well as other fundamental modeling variables such as transportation costs and communication technology – the “shape” (the spatial allocation of economic activity) of the Los Angeles metropolitan area remained broadly unchanged. Over the twenty-year sample period, the number of employment centers and their share of total employment have undergone only small changes relative to their aggregate dynamics. This stability appears to have its origins in the large fixed investment in structures and transit networks made decades earlier. Indeed, where employment concentrations are not situated astride one of the arteries in the current highway network (largely established by 1960), their location can be attributed to the freeway system as it stood prior to WWII. The dynamics of the metropolitan area’s employment appear to be explained in no small part by a path dependence related largely to the region’s freeway system as it existed prior to 1960. This finding has important implications for our understanding of location choice and the causes of agglomeration within metropolitan areas.

“Immigration and the Neighborhood”

by Dr. Albert Saiz and Dr. Susan Wachter

What is the impact of immigration on neighborhood dynamics? Within metropolitan areas, we find that housing values have grown relatively more slowly in neighborhoods of growing immigrant settlement. We propose three nonexclusive explanations: changes in housing quality, reverse causality, or the hypothesis that natives dislike having immigrant neighbors (native flight). To instrument for the actual number of new immigrants, we deploy a geographic “contagion” model that predicts the number of new immigrants in a neighborhood using lagged densities of the foreign-born in surrounding neighborhoods, and interactions of this variable. The evidence is strongly consistent with a causal interpretation of an impact from growing immigrant density to native flight and relatively slower housing price appreciation. Further evidence indicates that these results are driven more by the demand for residential segregation based on ethnicity and education than by foreignness per se.

“The Interaction Between Local Economic Development Policy and Real Estate Markets: Evidence from Tax Increment Finance Districts”

by Dr. Brent C. Smith

The analysis in this article examines the impacts of one of the more prominent economic development tools, tax increment financing (TIF) districts, on the local commercial real estate market. The study area is the city of Chicago, a community with a long history of reliance on TIF districts as a means to foster local development initiatives. A treatment effects model is used to address the selection bias often attributed to studies of public policy impacts on real estate markets. The results indicate that commercial properties located within designated TIF districts exhibit higher rates of appreciation after the area is designated a qualifying TIF district.

Colleagues in the News...

Dan Kohlhepp, president of Crescent Resources' commercial division, will serve as the new president and CEO of LandMar, in which Crescent Resources has controlling interest. Since 1987, LandMar has risen to become a recognized leader in the development industry and was ranked first in the 2006 residential developer list by the *Jacksonville Business Journal*. LandMar received the prestigious Outstanding Corporation Award in 2006 presented by the Association of Fundraising Professionals.

Susan Wachter and **Richard Green** were on a panel with Federal Reserve Chairman Bernanke at Jackson Hole, Wyoming. Their paper was entitled *The Housing Finance Revolution* and it was prepared for the 31st Economic Policy Symposium: Housing, Housing Finance & Monetary Policy.

Jeanette I. Rice has joined Verde Realty as Vice President, Market & Investment Research. Verde Realty is a private, diversified REIT engaged in the acquisition, development, and management of real estate in key cities throughout the US-Mexico border region. Jeanette maintains offices in both El Paso and Fort Worth.

Larry A. Souza (Charles Schwab) launched the Standard & Poor's Commercial Real Estate Indices (SPCREX), a series of constant-quality transactions based commercial real estate indices: national, regional (5) and property sector (4). The Chicago Mercantile Exchange (CME) is planning on launching standardized futures, and options on futures, contracts on these indices in October 2007.

James R. Follain has accepted a position as Visiting Professor of Economics at Siena College in Loudonville, NY.

John Clapp of UConn's Center for real Estate and Urban Economic Studies recently won the Appraisal Institute Education Trust Award for the best paper in the area of valuation at the 12th Asian Real Estate Society (AsRES) Annual Conference and the American Real Estate and Urban Economics Association (AREUEA) International Conference held in Macao, China. Clapp's paper, "*Buy to Scrape? Hedonic Pricing with Redevelopment Options*," was co-authored with Jyh-Bang Jou (*National Taiwan University*), and Tan Lee (*Yuan Ze University*).

Grant Thrall, Ashish Patel and Timothy Fik were awarded the Torto-Wheaton prize for the best real estate market analysis paper, presented at the 2007 ARES meetings. Their paper was entitled *Trade Area Definition and Calculations*.

The second edition of *Real Estate Principles: A Value Perspective*, by **David Ling** and **Wayne Archer** was published by McGraw-Hill/Irwin in November, 2006. **David Ling** and **David Geltner** also were awarded one of two MSASI manuscript prizes for the best research paper published in JRER in 2006 for their article *Considerations in Design and Construction of Investment Real Estate Research Indices*.

Geoff Meen (University of Reading) was awarded the Order of the British Empire in the Queen's New Year's Honours List for Services to Social Housing and was also elected as a Fellow of the Royal Society of Arts.

John Baczewski (Real Estate Fiduciary Services LLC) has been named Chairman of the Pension Real Estate Association's Valuation and Reporting Affinity Group. The group focuses on investor information needs.

Colleagues in the News
(Continued)

Norm Miller, Ph.D. joined the University of San Diego's Burnham-Moores Center for Real Estate as professor and director of academic programs in August 2007. The Center offers a Master of Science in Real Estate degree, an undergraduate minor in real estate, a Certificate in Real Estate Finance, Investments and Development and several industry conferences a year.

Gary Ralston (Florida Retail Development, LLC) presented Market Analysis and Financial Feasibility at the March 2007 session of the International Council of Shopping Centers at the Wharton School of Business, University of Pennsylvania and a one-day special executive session for Financial Feasibility at ICSC Headquarters in NYC.

Paul Cheshire (London School of Economics & Political Science) has been elected a member of the Academy of Social Science and appointed as a board member of the newly founded National Housing and Planning Advice Unit, which has been established by the British government to give expert advice on land use planning and housing affordability.

Joseph Pagliari, after ten years at Kellogg, has joined the faculty at the University of Chicago's Graduate School of Business as Clinical Professor of Real Estate.

Edgar Olsen (University of Virginia) is a member of the National Academy of Sciences Committee to Evaluate the Research Plan of the U.S. Department of Housing and Urban Development and the Implementation Committee for the Creation of the Batten School of Leadership and Public Policy at the University of Virginia.

Mark Levine (University of Denver and Levine Ltd., Consultants) accepted a Fulbright Scholar position in Guangzhou, China at Sun Yat-sen University.

Jim Noteware is CEO of Noteware Development, the largest, by unit count, residential developer in San Francisco, with a 338 unit project, a 198 unit project, and, in December, 192 unit project.

Robert H. Gidel is now President of the Ginn Companies.

University of Wisconsin real estate graduates and friends raised \$11 million in six months to name the Wisconsin Real Estate Center for Weimer School Fellow **James A. Graaskamp**. A visionary and charismatic teacher and mentor, Jim Graaskamp inspired a legion of Wisconsin students who, almost 20 years after his death in 1988, continue to honor him. The Wisconsin Center is currently directed by Weimer School Fellow **Tim Riddiough**. Among directors following Jim were Weimer School Fellows **Kerry Vandell**, **Steve Malpezzi** and **Jim Schilling**. Congratulations to you all for the well-deserved recognition enjoyed by the Wisconsin real estate program. [Reported in *The Counselor*, Summer 2007, Vol. 52, No. 2.]

John Williams was elected Vice Program Chair of ARES at its Annual Meeting (2007).

David Lynn is now Managing Director of Research and Investment Strategy at ING Clarion. His fourteen member team is responsible for providing market intelligence, new market and product identification and development, portfolio management, and investment recommendations firm-wide.

**All of us, Weimer Fellows and Hoyt Fellows, congratulate our colleagues
and friends on their achievements in 2007!**

Congratulations!



*Colleagues in the News
(Continued)*

Pat Hendershott, Weimer School Faculty Emeritus, received the David Ricardo medal, awarded by the American Society of Real Estate (ARES) at their April, 2007 meetings. The Ricardo Medal is given for lifetime contributions in real estate research.

— IN MEMORIAM —

Michael J. Sumichrast

Dr. Michael Sumichrast, known to many of us for his work as chief economist for the National Association of Homebuilders, died September 4, 2007. Mike was a founding director of HHI and long-term officer. He was a plain-spoken representative for the housing industry and a coauthor with Maury Seldin of Housing Markets: The Complete Guide to Analysis and Strategy for Builders, Lenders and Other Investors. Of Czechoslovakian descent, Mike led an adventurous life in the underground resistance, in the Czech unit of the Russian army, and as an escapee from Communist Russia. Ultimately he obtained a PhD from The Ohio State University and became Chief Economist in 1965 for NAHB, retiring in 1986.

— IN MEMORIAM —

Nathan A. Baily

Word has reached us of the passing of Nat Baily, age 81, on March 29, 2003. Nat was a founding Board member of the Homer Hoyt Institute and served as Secretary/Treasurer for many years. Nat also was the founding dean of the School of Business Administration at American University (1946 – 1973) where the Homer Hoyt Institute originated in 1967 with the help of Dean Baily. Dr. Baily continued service on the HHI board for many years after HHI moved from the university.

A graduate of Columbia University, (Ph.D., 1946), Nat divided his time between government posts and American University. Among his governmental positions were Commissioner, U.S. Postal Rate Commission, 1970 – 1974, and Chief Economist, 1974 – 1975. He also was Economist in the Office of Price Administration. Nat was a director of the U.S. Chamber of Commerce and several private organizations and companies. Nat had been ill with multiple sclerosis for many years. He is survived by a son, a daughter and a granddaughter, and many friends who remember him fondly.

MSASI and Weimer School Events and Awards

MSASI's Annual Breakfast at the January 2008 AREUEA Meetings

The MSASI breakfast for Weimer and Hoyt Fellows, Weimer Fellow Candidates, Post Doctoral Honorees, AREUEA dissertation winners and MSASI winners recognized by ARES will be held at the Sheraton New Orleans, Saturday, January 5th, 2008. Expect your invitations this Fall and please reply promptly.

MSASI's Annual Breakfast at the April 2008 ARES Meetings

MSASI will host a breakfast at the April 2008 ARES meetings in Captiva Island, Florida. Invitations will be coming in early Spring 2008.

Hoyt Funded Awards in 2006 and 2007

AREUEA Awards

HHI provides AREUEA dissertation awards annually in honor of Dr Maury Seldin. Recipients are chosen by an AREUEA committee and announced at the AREUEA Presidential luncheon. Award recipients in 2007 were **Dr. Lu Han** (First Place), of the University of Toronto and **Dr. Tobias Mühlhofer** (Second Place) of the University of Texas.

ARES Awards

The MSASI-sponsored prize for the Best Paper Presented on Innovative Thinking, better known as the "Thinking Out of the Box" research paper, was presented at the 2007 ARES Annual Meeting to **Patrick Lecomte** of the University of Cincinnati for "*Beyond Index-Based Hedging: Can Real Estate Trigger a New Breed of Derivatives Market?*"

The winners of the MSASI manuscript prize for the "best" research papers published in JRER in 2006 were **Terrence Clauretie** and **Marvin Wolverton** for "*Leave Vacant or Rent: The Optimal Decision for Absentee Home Sellers*" and **David Geltner** and **David Ling** for "*Considerations in Design and Construction of Investment Real Estate Research Indices*".

AsRES Awards

MSASI awarded a prize for the best paper presented at the 12th Asian Real Estate Society Annual Conference held July 2007 in Macao, China. The paper entitled "*On the Interest Rate Risk of Housing Government Sponsored Enterprises*" by **Gerd M. Welke** and **Dwight M. Jaffee** was chosen for this honor.

ASI News is published periodically by the Maury Seldin Advanced Studies Institute. If you have any questions and/or comments, or would like to submit an article to be considered for publication, please contact the Homer Hoyt Institute at (561) 694-7621 or email bernardini@hoyt.org.

CALENDAR OF EVENTS

NOVEMBER 2007

NAR 2007 REALTORS®

Conference & Expo

November 13-16, 2008

Venetian Resort Hotel and Casino
& the Sands Expo and Convention
Center.

Las Vegas, NV

www.realtor.org

National Association of Real Estate Investment Trusts (NAREIT)

Annual Convention

November 19-21, 2008

Manchester Grand Hyatt
San Diego, CA

www.nareit.com

JANUARY 2008

AREUEA Annual Conference

January 4-6, 2008

Sheraton New Orleans
New Orleans, LA

www.areuea.org

National Association of Real Estate Investment Managers (NAREIM)

2008 Annual Symposium

January 13-15, 2008

Mandarin Oriental
Miami, FL

www.nareim.org

Weimer School and Hoyt Fellows LLC

January 17-21, 2008

www.hoyt.org

JANUARY 2008

(CONTINUED)

BOMA International Winter Business Meeting and Leadership Conference

January 25-28, 2008

Doral Golf Resort & Spa
Miami, Florida

www.boma.org

MARCH 2008

CoreNet Global Summit

March 3-5, 2008

Grand Hyatt Mumbai
Mumbai, India

www.corenetglobal.org

BOMA International National Issues Conference

March 10-11, 2008

The Westin City Center
Washington, D.C.

www.boma.org

APRIL 2008

IREM Leadership and Legislative Summit featuring IREM Capitol Hill Visit Day

April 12-16, 2008

JW Marriott
Washington, DC

www.irem.org

CRE Midyear Meeting

April 13-16, 2008

The Drake Hotel
Chicago, IL

www.cre.org

APRIL 2008

(CONTINUED)

ARES Annual Meeting

April 16-19, 2008

South Seas Resort
Captive Island, FL

www.aresnet.org

SIOR Spring Convention

April 24-26, 2008

Grand Hyatt Washington
Washington, DC

www.sior.com

NAIOP National Forums Symposium

April 29-May 2, 2008

Sheraton New York
New York, NY

www.naiop.org

MAY 2008

Urban Land Institute (ULI) 2008 ULI Spring Council Forum

May 7-9, 2008

Dallas Convention Center
Dallas, TX

www.uli.org

Weimer School and Hoyt Fellows LLC

May 15-18, 2008

www.hoyt.org

ICSC Spring Convention

May 18-21, 2008

Las Vegas Convention Center
Las Vegas, NV

www.icsc.org

AREUEA Mid-Year Meeting

May 29-30, 2007

Washington, DC

www.areuea.org

If you have any comments about the calendar or would like us to list an event, please contact us:

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**Excerpted from *On the Road with Steve Felix*
Steve Felix, Senior Vice President and Publisher
Institutional Real Estate, Inc.**

“I’m writing to you from Singer Island, Fla., where I’ve been hanging out with the most intellectual group of real estate people I’ve ever been with, The Hoyt Fellows. Other than our editorial advisory board meetings, I have not been to a meeting where the dialogue is more open and constructive. This group has a special camaraderie and a very healthy dynamic. I am grateful to the Hoyt Fellows for inducting me as a member.”

“There was an excellent session about real estate derivative indices. A number of these indices are in competition with each other to become the “standard” for trading contracts in real estate futures/forwards, swaps, options or structured notes. The differences in the indices arise from their underlying assumptions. They can be appraisal-based, transaction price-based, repeat sales-based, average price per square foot-based, or modeled price per square foot-based. The discussion about the validity of the underlying assumptions was robust, to say the least...I did leave understanding a lot more about this type of real estate investing...And, as one of my fellow Hoyt fellows mentioned to me on the beach this morning, “It’s important that whatever index people decide to use, that it’s vetted as rigorously as the NCREIF index has been vetted.”

The Weimer School of Advanced Studies in Real Estate & Land Economics, 760 US Hwy. One, Suite 300, North Palm Beach, FL 33408, which is owned and operated by the Maury Seldin Advanced Studies Institute, Inc., a non-profit educational organization, admits students of any race, color, national and ethnic origin to all the rights, privileges, programs, and activities generally accorded or made available to students at the school. It does not discriminate on the basis of race, color, national and ethnic origin in administration of its educational policies, admissions policies, scholarship and loan programs, and athletic and other school-administered programs.