The Globalization of Developing-Nation Real Estate Markets – A Current Perspective

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Abstract

To examine today's state of developing nation real estate markets is to gain insight into the evolutionary process of a new market in today's world.

Real estate represents a considerable percentage of the wealth of individual nations. As a tradable asset capable of providing leveraged financing, or as the property behind mortgage backed securities, real estate can be worth far more than its face value. For the citizens of developing nations, open real estate markets bring increasing social and financial stability. Nonetheless, to the detriment of the developing world, the power of tradable real estate in developing nations remains largely untapped. Real estate markets are not widely open or functional.

For the investor, the volatile and growing economies of developing nations represent opportunities for returns and portfolio diversification. Real estate markets in these regions are in the process of transforming in a way that will render them as easily accessible as domestic real estate or securities traded on foreign exchanges. The evolution of this market takes place on several independent but essential fronts including the public, private, and multi-national organizations as well as individual and institutional investors.

Based on current literature research, a series of interviews, and a survey of organizations in the field, this paper documents the major issues involved with the evolution of this market, establishes a framework for evaluating progress, and places participating organizations within that framework. This analysis makes it possible to make an assessment of the current and future state of real estate markets on a global basis as well as in individual countries.

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CONTENTS

Introduction

For most, globalization is not a term naturally applied to real estate – international real estate is not commonly considered to be easily accessible. However, the global market for real estate is presently subject to the same combination of market forces, improvements in communications, increases in computer skills, and heightened global awareness as so many other industries that have experienced rapid advancement in the last decade. The industry of international, and particularly developing nation, real estate is presently in a state of rapid change.

This paper will examine the current state of the evolution of this market. It will provide insight into the forces, organizations, and institutions involved in the development of a new market. This paper will make a current survey of these elements and demonstrate that progress is being made on a variety of fronts. The reader will gain exposure to current thought regarding international investment, considerations for evaluating the functionality of real estate markets in developing nations, public sector (such as the World Bank and IMF) efforts, and private sector efforts. The reader should come away with an understanding of the current state of the market, the activities of the major participants, and expectations for development in the near future.

This paper will discuss the importance of international assistance towards developing financial and legal infrastructures, the establishment and professionalizing of national real estate associations, trans-national peer-to-peer broker networking organizations, and efforts at establishing databases of global property listings and national functional constraints. Four elements in particular signal an approaching tipping point in the industry:

1. International awareness of the importance of real estate reform in developing nations;
2. Trade organizations devoted to providing online databases of international property listings and summaries of national particulars such as real estate law, tax policy, foreign ownership restrictions;
3. forums for the international networking of real estate professionals and development of a harmonized protocol; and
4. The availability of title insurance in a growing number of countries.

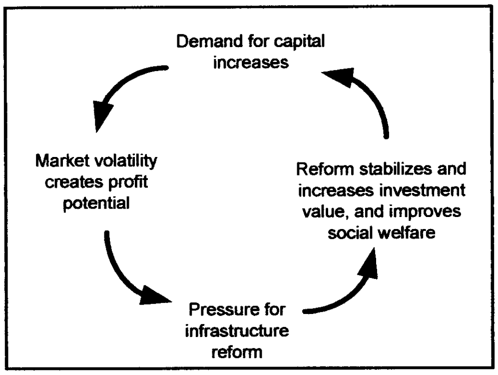

Figure 1. Virtuous Cycle of Market Development

These elements are active factors in a reinforcing cycle of market development (Figure 1). Starting at an arbitrary point, international investors see opportunities for profit and find ways to invest in immature markets. This brings pressure for reform of legal and financial infrastructure which in turn contributes to domestic improvements in asset values and social welfare. This improvement in conditions results in increasing demand for external capital, which leads to increasing opportunities for investment.

This paper is structured in four parts. First a literature review summarizes current thought related to investment in international real estate and developing markets. This section will find that these markets have high profit potential, that there is an increasing amount of effort in establishing investment frameworks and analytical capability, that they suffer from a lack of statistical transparency, that there are significant practical obstacles involved in investment, and (critically) that a functioning real estate market is extremely important for economic progress in developing countries.

In the second section, a series of interviews are documented with professionals whose work is related to the industry of international real estate investment, with an emphasis on their interactions with developing nation markets. Taken together, these individuals represent a wide variety of perspectives; financial, economic, and academic. Their comments and observations provide a current snapshot of the state of the market, obstacles to development, and what is or can be done to overcome those obstacles.

Third, this paper surveys the work carried out by organizations involved in developing nation real estate. These organizations include not-for-profit multilateral organizations, private firms, and trade organizations. A framework is presented that divides organizational participation into four categories: regulatory, infrastructure, evaluation, and execution. Existing organizations are cataloged and their status is summarized. This section finds that market evolution cannot be achieved by any one organization or category, but by a progressive effort by a variety of organizations.

Finally, the paper will draw conclusions about the progress of development of developing nation real estate markets.

PART I. Literature Review

This section provides a review of literature in the areas of portfolio theory as it applies to real estate, international diversification, real estate index statistics, and practical aspects of international real estate markets related to developing nation markets. Section 1 discusses efforts made to link real estate value with macro-economic factors. Section 2 reviews current efforts at examining the impact of international real estate on diversified portfolios. A summary of data gathering issues and statistical methodology as it relates to real estate is discussed in Section 3 and Section 4 examines some of the practical obstacles involved in investing in developing nation real estate. Finally, Section 5 discusses the importance of functional real estate markets to the economic progress of developing nations.

Section 1 - The relationship of real estate value and certain macro-economic factors

According to [Rigobon 2003], developing nation economies tend to be more volatile than developed nation economies, with deeper and more sudden performance drops and higher growth rates during recoveries (Figure 2). A nation's changing economic performance will have an impact on its real estate values, and this section looks at this relationship from a variety of perspectives including the credit cycle, interest rates, observed relationships between real estate and economic conditions, and population growth.

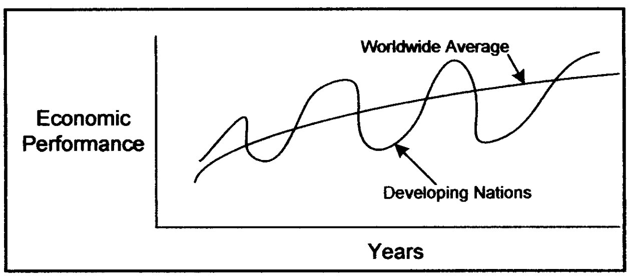

Figure 2. Volatility of Developing Nation Economic Performance [Rigobon 2003]

In October 2003, the IMF held its first ever Conference on Real Estate Indicators. This meeting reflected the increased awareness that changing real estate values have a direct relationship to a countries overall financial condition and policies. Real estate has been a significant factor in several economic crises, including the Japanese recession of the late nineties, largely due to credit inflation [Renaud 1996] (Figure 3). Increases in real estate purchases lead to increased market price, which in turn strengthens investor balance sheets. Banks which lend based on these inflated balance sheets issue more credit, which leads to further purchasing, which leads to higher real estate prices. At some point the cycle is interrupted, loan failure rates increase, and a serious liquidity crisis occurs. This credit cycle crisis has led the IMF as well as others (including [Arthur 2003] and [Nabarro 2003]) to pursue improved real estate indicators in order to use them as financial soundness indicators. [Arthur 2003] refers to work being done at the Bank for International Settlements (BIS) in building an Aggregate Asset Price Index (AAPI) as a "set of indicators that are able to predict a financial crisis."

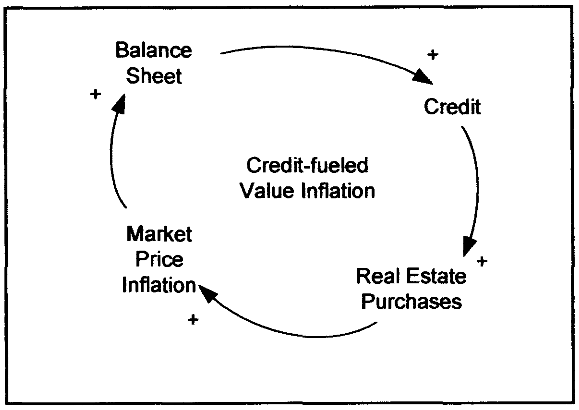

Figure 3. Credit fueled value inflation leading to economic crisis

Interest rate is one factor that may interrupt the credit cycle. According to [Helbling 2003] "In the case of housing price busts . . . short term rates clearly increased prior to the event and remained constant thereafter, which is consistent with the notion that the bust may reflect monetary policy tightening." Furthermore, "housing busts frequently occur about 18 months after a tightening of short term interest rates."

Additional observations have been made about the macro-economic behavior of real estate markets, including [Helbling 2003]: 40% of housing booms lead to bust, price corrections averaged 30%, and housing price crashes have lasted an average of 4 years (1.5 years longer than equity crashes). Also, housing busts have been strongly synchronized internationally, considered surprising since the financial instruments involved are not tradable securities. "This is probably because of cross border synchronization of monetary policy and deregulation (in addition to general business cycle linkages)."

In addition, there appears to be a strong correlation between real estate markets and equity markets as equity prices and residential housing costs are tightly correlated with a six month lag [Helbling 2003] (Attachment A). Further, equity markets tend to start falling three to four quarters before a housing price peak preceding a bust.

As an indicator of the fundamental long term macro-economic value of developing nation real estate, population growth is an important factor. As an asset, real estate is unique in the sense that world supply is essentially fixed with no practical prospects for increase or substitute, and demand is steadily increasing as population grows. [The US Bureau of the Census 2003] has reported historic populations and projected population growth through 2050 (Figure 4 and Attachment B). This projection shows that the world population is expected to grow from approximately 6 billion people in 2004 to 9 billion people in 2050. Critically, virtually all of that population growth is projected to occur in developing nation and virtually none in the developed nations. It is reasonable to assume that demand pressure on price will grow proportionately. It also means that the need for improved market mechanisms is paramount.

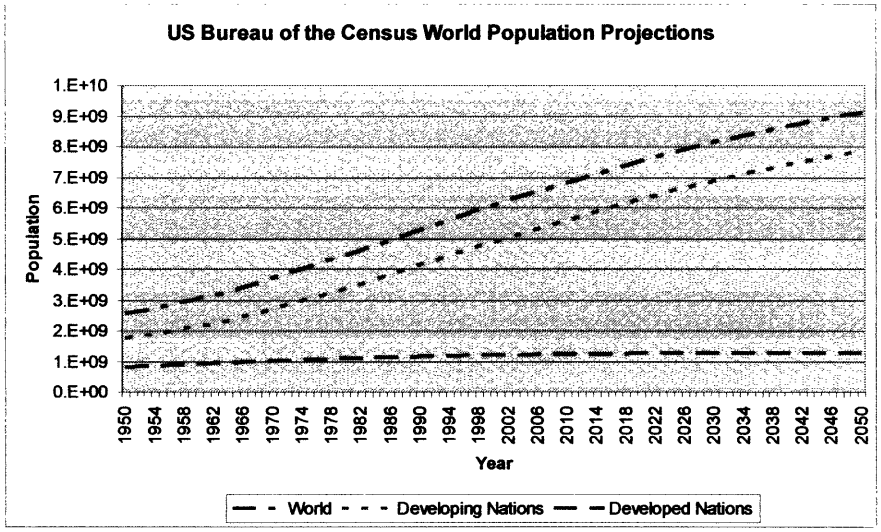

Figure 4. World population growth

To summarize, much of the empirical work done relating real estate values to macroeconomic factors has been in the area of using the real estate values as an indicator to other factors such as a liquidity crisis, rather than determining real estate value as a result of macro factors. Clearly for the purposes of this topic, it is necessary to more closely examine value as a function of macro factors. Secondly, there is work on the relationship of real estate to equity markets, but it is written primarily from the point of view of predicting real estate busts rather than profit opportunities. Finally, perhaps the strongest predictor of long term appreciation of developing nation real estate comes from the fact that virtually all of the world population growth for the next 50 years is expected to occur in developing nations.

Section 2 - Cross-border real estate, portfolio theory, and diversification

The purpose of portfolio diversification is to take advantage of the statistical impact of holding combinations of assets that have less than perfect correlation in investment return patterns. The effect of this is to dampen the risk-return tradeoff of assets; ie a diversified portfolio reduces risk while maintaining a given return or increases return for a fixed level of risk. This section summarizes current efforts at applying portfolio theory to international real estate in order to understand different approaches to measuring market risk.

International diversification results in improved risk returns compared to strictly domestic portfolios. However, most studies in international diversification have been made primarily on publicly traded securities and real estate as a diversifying investment has been largely ignored. [Chua 1999]. Figure 5 portrays the recent history of the relationship between the internationalization of securities investment and real estate investment for the purposes of portfolio diversification. Initially, domestic investors started by investing in international securities such as bonds and currency futures [Rigabon 2003]. Domestic investors then started to include real estate in domestic asset portfolios, though primarily in the form of securitized assets such as REITS. More recently, real estate specialists are starting to try to understand the impact on diversification of cross-border real estate, though primarily through securitized proxies to real property such as equity in real estate firms. [Ling 2002] argues that "the diversification potential associated with investing internationally has received increased attention in recent years from both academics and practitioners" showing that this is a very recent phenomenon. "However, the risks and uncertainties of direct real estate investments in foreign countries have generally outweighed the possible reductions in portfolio risk from international diversification."

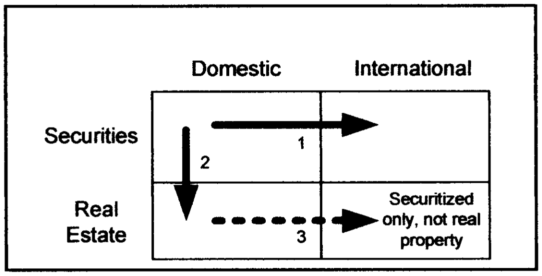

Figure 5. Evolution of portfolio diversification in real estate and international sectors

Torto Wheaton Research has studied 21 cities on 5 continents to produce a pair-wise correlation table (Attachment C), based on a rent series history, indicating the extent to which market movements are synchronized. The correlation amongst North American cities is quite high, as is the correlation among cities in Europe. The lowest correlations (and thus the greatest opportunities for diversification) are found between North American cities and cities in Europe and Asia. Interestingly, the correlation among cities in Asia is quite low. [Torto 2002]

According to [Paggliari 1997], space markets have a lower correlation between countries than do capital markets. They put forward the theory that capital market prices have achieved a higher level of 'internationalization' than have real estate markets, subject to a greater extent to local idiosyncratic fluctuations. This means that international real estate may provide an even greater level of diversification than the capital markets.

In the effort to establish a multifactor statistical model for real estate returns on a country-by-country basis, [Ling and Naranjo 2002] start with the classic Capital Asset Pricing Model (CAPM) for which the general form is:

$$r = \beta \text{ x } (r_m - r_f)$$

Where r is the expected return on the asset, $(r_m - r_f)$ is the market risk premium (or the average aggregate market return minus the risk free rate of return), and β is the sensitivity of the given asset to the return on the aggregate market return.

[Ling and Naranjo 2002] expand on this single factor model with the multifactor equation:

$$r_{it} - r_{ft} = \alpha_i + \beta_{iw} \text{ x } (r_{wt} - r_{ft}) + \beta_{ir} \text{ x } e^{s}_{it} + u_{it}$$

Where β_{iw} is the estimated return sensitivity of country i's real estate market to the worldwide portfolio, β_{ir} is country i's estimated return sensitivity to country specific risk factors and the constants (refered to as Jensen's alphas) demonstrate the presence of superior risk adjusted return performance. For an estimation of the worldwide portfolio returns ($r_{wt} - r_{ft}$), the analysis uses indices compiled by Morgan Stanley Capital International and available on Datastream.

The returns on real estate markets are defined as a composite of securities of real estate companies listed on the stock exchanges of 30 countries. In other words, returns on real estate in each market are proxied by the share price of real estate companies, not by actual transaction data (the validity of this approach must be considered in light of [Glascock 2000] below).

This study finds that there is substantial variation in real estate returns across countries, but there is little evidence of abnormal returns at the country level. As a result, the study concludes that investors should not pick 'winners,' but should concentrate on the covariance structure of returns across countries.

In summary, much current thought has been devoted to adding the perspectives of internationalism and real estate to portfolio theory. The traditional single-factor CAPM model has been applied on a multifactor basis to provide a framework for international investment in real estate.

Section 3 – Data gathering issues and statistical methodology

Measuring prices and market fundamentals on real estate over time is extremely difficult. In the opinion of [Reiff 2003], "the difficulties stem, in part, from the heterogeneity of these non-standard assets and the infrequency of observed transactions with individual properties." [Arthur 2003] and [Zhu 2003] summarize the weakness of available data worldwide and demonstrate support for the IMF's efforts to foster a common structure for real estate valuation data. Two general approaches to data gathering have been seen: Transaction based and securities based.

Transaction based (recording all of the details of each transaction) is by far the richest source of information, and [Matalik 2003] is attempting to construct such a recording system for the Czech Republic based on tax filings. This obviously depends on the dependability of the tax filers, and in addition according to [Ling 2002] "identifying a set of consistently 'priced factors' in each country is problematic due to the length and breadth of available real estate data for each country. [. . .] many of the usual 'suspects' (i.e. changes in interest rates, term structure slopes, industrial production, national consumption, etc.) are not available in a consistently measured and timely fashion across the countries in our sample."

[Seiler 1999] attempts to refine the accuracy of classifications when sub-categorizing 'real estate' by including parameters such as: property type, geographic and economic diversification, property size, and urban versus suburban. [Reiff 2003] extends upon this by discussing the method of *hedonic pricing*, defined as the construction of a model used to identify factors or influences on the price of goods based on the idea that the price is based on both intrinsic characteristics and external factors. Attachment D lists the specific factors used in Reiff's hedonic pricing model for Brazil.

An alternative method in use is to look at the more easily quantifiable share price of real estate firms and of securitized real estate holdings such as REITS. The benefits of including REITs in diversified portfolios is discussed [Glascock 2000], though it is found that REIT behavior is closely correlated to small cap stocks, meaning that there are limited diversification benefits, and implying that REIT pricing is weakly correlated to actual real estate price changes. In contrast, [Ling 2002] argues that that there is a valid link between pricing of securities of real estate companies and actual real estate markets.

In summary, a significant challenge to an international real estate market is the lack of consistent and detailed data. Transaction-level data is preferred and various standards have been put forward. Real estate securities data is more easily accessible than transaction-level data but its merits as a statistically valid proxy are debated. In analyzing the quality of information over a region, [Boon 2003] believes that there is no consistent reliable source, but he offers a basket of individual sources (Attachment E) and cautions the user to perform due diligence to ensure selected data is appropriate to the given need.

Section 4 – Practical issues of investing in developing nation real estate markets

In addition to the challenge of building a financial model and gathering reliable data for valuation predictions, there are fundamental practical obstacles that affect the investment potential of a developing nation. These obstacles, as well as expectations for change, must be understood on a country by country basis. [Galal 2002] analyzes projects sponsored by the World Bank aimed at reforming real estate markets in developing nations. In this analysis, Galal breaks the multitude of obstacles to a well functioning real estate market into just three broad groups: Finance and Risk Management (including mortgage lending and title insurance); RICE – Rights, Information, Contracting, Enforcement; ie a functioning legal system; and, Market Regulation and Fiscal Policy.

[LARA (Land and Real Estate Assessment)] is a PC-based expert system used by the World Bank that is designed to evaluate the functionality of the real estate market within a particular regime. Based on a number of parameters (Attachment F), LARA produces a metric that can be used as a proxy for risk. The result has implications for both country risk as well as liquidity risk (ability to liquidate the investment) and is used both as a market evaluation tool and a tool to guide reform.

Section 5 – Value and importance

It is projected that 45%-75% of the wealth of developing nations is made up of land and real estate [Galal 2001]. In spite of this, real estate in developing nations is a relatively inaccessible market from the perspective of international capital, and has been resistant to the globalization of capital flows. Though cross-border investment in real estate has been limited, this is in the process of changing and factors driving this are: financial deregulation, integration of global markets and the emergence of global real estate companies [Torto 2002]. This literature review summarizes much of the current writing related to investment in developing nation real estate.

Improving the capabilities of international investors to invest in developing nation real estate has tremendous potential benefits to developing nations as well as to international investors. Developing Nations stand to benefit most directly through increased liquidity in their largest asset base coupled with significant inflows of capital. In times of crisis (i.e. recession, deflation or currency revaluation) countries tend to have reduced liquidity in the banking sector [Helbling 2003] particularly in bank-based, rather than market-based, financing environments and external liquidity can be an important factor in recovery. In addition, [Galal 2001] refers to the social benefits of reformed real estate markets by citing the growing literature supporting the positive correlation between land distribution, poverty reduction, social stability and economic growth. [Matalik 2003] describes the success seen in the Czech Republic in increasing national wealth as a result of financial market liberalization and changes in property owning restrictions.

Promoting international access to real estate also encourages the development of related market mechanisms such as banking and mortgage sectors, legal systems and title security [Galal 2001]. This not only has obvious internal benefits, but demonstrates a reform orientation to the world community. Since the late 1990s, the IMF and World Bank assistance for countries experiencing economic crisis (including Mexico, Indonesia, South Korea, Thailand, Russia, and Brazil) has been contingent upon financial sector reforms such as these [Rubin 2003].

International capital investors have opportunities for risk diversification as well as profit via value arbitrage; i.e. in immature markets such as developing nation real estate, above average profits can be generated for the investors involved in the early stages of market evolution. The challenge for the investor is to develop an investment framework that can be operationalized as well as to overcome the practical obstacles inherent in developing nation real estate investment – these issues are discussed further in this review. An additional benefit can be found in risk diversification of portfolios by adding developing nation real estate as a class of investment.

Summary

Developing nation real estate is an extremely large and immature market, bearing a legacy of protectionism, country risk, and conceptual challenge for investors by virtue of a lack of transparent data. Globalization and the decline of centrally planned economies are leading to reforms in financial and legal systems that begin to facilitate international investment in developing nation real estate, and the benefits associated with the evolution of a functional developing nation real estate markets are shown to be large. Developing nations themselves stand to benefit from increased liquidity, stability, social welfare, and improved capital infrastructures. For international capital, there are benefits in terms of the availability of new sectors for investment, increased diversification, and potentially high profits as the market develops.

There is a growing body of work devoted to developing structures for valuing international real estate, particularly in the bilateral relationship between real estate value and macro-economic factors, and the relevance of portfolio theory and diversification. The fundamental problem of limited reliable and consistent data is much discussed and is being addressed on an important level (by the IMF and BIS among others). Finally, metrics have been developed that attempt to quantify the numerous subjective issues related to the secure investment of capital in foreign countries – such as financial system accessibility and reliability of the legal system. It is taken as a positive sign that these metrics are used not just by international entities such as the World Bank but by developing nations themselves as internal guidance towards reforming their own regimes.

Part II. Interviews

A series of interviews were conducted with individuals working in a variety of capacities related to the development of international real estate markets. Each interviewee was provided in advance with a list of guiding questions (Attachment H) and was asked to discuss freely any issues that came to mind relevant to the topic.

INTERVIEW – An Investor's Perspective[1]

This interview was conducted with a fund manager from a large (multi-billion dollar) investment firm specializing in direct investments in international real estate. The firm manages approximately twenty[2] individual funds, each typically holding assets within one country, and capital is raised in currency of the subject country. The clients are generally institutional investors such as pension funds. The funds are unlisted, most are closed funds, but a few are open ended. Since the funds are not listed on any exchange, clients wishing to exit the open-ended funds must be replaced and exit/entry valuation can be an issue. Given this structure, the interviewee described the relationship with the clients as more of a 'partnership' than a distant client/provider relationship.

Key points:

- The funds' first requirement is 'stable income' and the second requirement is to provide 'portfolio diversification' to the investors.
- The interviewee does not see risks associated with trans-national investment decreasing over time (as premised in this paper), and cites the Asia crisis and September 11 as examples.
- The interviewee feels that there is a definite demand in underdeveloped countries for capital available via real estate investing and a demand by investors for increasing opportunities for diversification.

In general, the interviewee felt that increasing globalization makes real estate investment in developing countries a good opportunity with growing possibilities for investors. The interviewee also felt that the importance to the welfare of each country of improving property markets in developing nations was generally underestimated.

The interviewee described his/her funds' investment principals as relatively conservative. While many of the funds invested in areas that are considered developing nations, the countries in question are on the more developed end of the spectrum with relatively stable political environments. The subject properties are generally downtown commercial properties with stable leasing income and a 5-7 year liquidation horizon.

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[1] **Identity withheld** – An Investor's Perspective, March 10, 2004. This individual is a fund manager with an international investment firm that has tens of billions of dollars under management and employed in international real estate markets. For reasons of confidentiality, this individual asked that his/her identity and firm identity not be disclosed.

[2] Breakdown: Australia: 2 funds, Asia: 7 funds, Europe: 8 funds, US: 3 funds.

The interviewee described their process as:

- Identify target country based on stable political environment and legal system;
- Judge the stability and potential of the economy;
- Determine which sector offers quality property with the most opportunity for stable income (as an example, the US and European home markets were given as not good opportunities since so many residents own their own homes). This may be commercial, retail, hotel, etc.;
- Select city and consider population migration issues; and
- Identify specific properties within that sector/ city.

Interestingly, the interviewee's strongly stated opinion is that to be successful in the trans-national real estate market, one must be a large organization with a lot of resources.[3] Critical to a good investment environment are political stability and good banking, judicial system and land ownership laws. Local mortgage capabilities are not required, and the interviewee could not speak to the question of whether or not external investment augmented or inhibited the development of the local mortgage industry. The interviewee was also not aware of the extent of the efforts of the World Bank and the International Finance Corporation, etc. to assist in developing local mortgage capabilities and had no comment on the relationship between a functioning local mortgage industry and the ability to finance capital projects in local currency.

[3] This indicates a certain perspective that is interesting to contrast to the view presented later in the interview with the financial engineer's perspective (INTERVIEW – A Financial Engineer's Perspective, page 18) who feels that significant returns are made by smaller investors.

INTERVIEW – A Financial Engineer's Perspective[4]

Dr. Eckert's overall position is that first, functional real estate markets are of tremendous value to the health of a country and second, the biggest obstacle to reform is local attitude. According to Dr. Eckert, in developing nations, citizens at large generally do not understand the idea that a home is more than just a home in that it is a liquefiable asset that can be used as collateral for further benefit (i.e. raising capital). Further, governments also appear not to fully appreciate the importance of functional property markets and so do not provide sufficient encouragement to reform.

Key points:

- A community of small to medium size investors exists that invests successfully in countries that have achieved a basic level of reform. They invest in countries where they have special knowledge or which satisfy their own unique utility functions and invest for short term capital appreciation rather than income.
- Efforts at reforming components of the market (such as developing the mortgage industry or land registration systems) are often not very successful by themselves, and Dr. Eckert emphasizes the difference between isolated reforms (limited success) and synergistic reforms (a basket of harmonized efforts).

Dr. Eckert believes that the World Bank's International Finance Corporation and similar organizations' ongoing efforts to support improving market infrastructures are important but cites two specific instances where they have not been successful. The first the is the experience of Russia, which went to great lengths to reform its land registration system. This effort has not led to a functional property market, however, since the additional effort of widely privatizing state and city held land has not been undertaken. The second is Armenia, where an elaborate land registration system was institutionalized for the benefit of the people. To make sure that people who were not wholly convinced of the benefits of officially registering their properties completed their registration, the government put in place a mechanism whereby people would be unable to pay their land tax until their property was registered. This had the opposite of the intended effect, and Armenia has a very low rate of registration.

As a note, one reform given special emphasis is tax reform that encourages real estate ownership such as enjoyed in the United States, such as mortgage interest deductions and capital gains waivers for homestead sale. Many regimes provide no tax benefit for real estate and have high transactional stamp taxes. For other reforms to work, the tax regime (possibly one of the more difficult changes to make in a government) must be adjusted.

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[4] **Dr. Jospeh Eckert** - A Financial Engineer's Perspective, March 31, 2004. Dr. Eckert is a Director of Barents Group at BearingPoint overseeing BearingPoint's international real estate consulting division. jkeckert@bearingpoint.net. Comments and responses are based on consulting directly with developing nation governments, investors and institutions such as the World Bank about reforms designed to release value from property.

Countries which are recently stabilizing market reforms are generally considered too risky for institutional investors. However, individual investors are investing on a trans-national basis in these countries. Such investors invest for short term capital appreciation rather than for medium term income, and can be successful in ways that institutional investors cannot.

Regarding the effort of constructing a macro-economic model or predicting returns, Dr. Eckert feels that numerical factors such as GDP and M1 are simply too inaccurate (and will continue to be inaccurate for quite some time) to be used as a modeling factors. The primary reasons for this are the extent of informal economies and the limited reporting systems. Instead, Dr. Eckert discusses constructing a spatial model that combines GIS (Geographic Information Systems) land views and property transaction histories through time. He described a study in Krakow that included over 10,000 transactions between 1993 and present. The initial shape of the profile was lumpy and inconsistent, indicating unpredictable factors in real estate pricing. Over time, the profile resolved into a bell curve with the high point (price/ unit) over the center of the city. According to Dr. Eckert, the resolving of the shape of bell curve over time reflects the improving market functionality of the property market as the non-market influences fall away and the free market forces become dominant. This, he feels, has better potential than a macro-economic modeling effort to explain the state and potential of a real estate market in a particular location.

INTERVIEW – An International Association of Real Estate Professional's Perspective[5]

Key points:

- The International Consortium of Real Estate Associations (ICREA) is concerned with establishing global standards for the real estate industry. This includes:
    - Technical database definition for international property listings; and
    - Protocol for referrals (agency-to-agency or broker-to-broker) and cross-commissions, including inter-agency guidelines for arbitration.
- Externally (i.e. to the market), ICREA provides an online resource that satisfies three critical needs for the development of the market:
    - International property listings;
    - Explanation of industry practices in each country; and
    - Links to the national real estate association in each member-country with associated links to local professional services.
- Ms. Weinrich sees a growing market at the small investor level for people such as:
    - Northern Europeans moving to warmer locations,
    - Individuals taking advantage of inexpensive land prices in Central Europe,
    - Ex-patriots working abroad.

Ms. Weinrich sees a functioning international property market at the individual level enabled by increasingly efficient and economical travel as well as the global accessibility of financial resources. As an association of associations, ICREA's role is to facilitate transactions across borders by providing the necessary information and contacts to the public. It is worth noting that ICREA strongly emphasizes adherence to an international *code of ethics*.

As the most important element that must be developed in order to further the international market, Ms. Weinrich identifies land registration and *title insurance*. She states that from her perspective governments do acknowledge the need to improve land registration systems and names India and Ukraine as current examples.

Ms. Weinrich mentioned that the status of brokerages and associations varies greatly between countries, complicating ICREA's task. This can range from unlicensed individual brokers with no existing national association or common property database to fully trained, bonded, and licensed professionals holding membership in a national association. An important element to making available a public database such as the US Multiple Listing Service (MLS) is the existence in a market of the concept of exclusive listings, meaning a contract between seller and broker that grants the broker temporary exclusive rights to sales commission on a given property. In other words, in a market

[5] **Ms. Carol Weinrich** - An International Association of Real Estate Professional's Perspective, March 29, 2004. Ms. Weinrich is the Managing Director of International Operations at the International Consortium of Real Estate Associations (ICREA). CWeinrich@realtors.org. Ms. Weinrich is not a licensed broker and her observations are based on working within a trade organization wholly devoted to the topic.

without the concept of exclusive contractual representation, brokers will avoid supporting public listing systems in favor of private word of mouth selling.

INTERVIEW – An International Title Guarantor's Perspective[6]

Key Points:

- It is possible to purchase title insurance for properties in a large number of countries, including countries with developing nation status.
- Availability of title insurance is globalized; i.e. one central insurance company with one point of contact. Stewart International appears to offer the most complete geographical coverage, but First American is a competing firm with more limited coverage.

Mr. Craig introduced Stewart International (Stewart) as a 112 year old title insurance company based in Houston, Texas. Originally offering insurance in the United States, Stewart has aggressively expanded its activities to non-US territories and now has offices in fourteen (14) countries and business activities in over thirty six (36) countries. Office locations include:

USA	Canada	Puerto Rico
Mexico	Dominican Republic	Australia
Korea	United Kingdom	Poland
Czech Republic	Slovakia	Turkey (May 2004)
Costa Rica	Saipan	

Stewart sells title insurance and title registry automation and consulting services to a much larger pool of countries by selling through one or more of the offices above. These countries include:

- European Union
- Central America (except Nicaragua)
- Eastern Europe, including Moldova, Ukraine, Hungary, Georgia, and Serbia
- Argentina, Ecuador

An important benefit of this system is that contracts related to risky regimes are governed by the laws of a well developed state. As an example, for a German investor buying property in Hungary, title insurance would be underwritten in London and subject to UK law. Pricing for title insurance in most countries ranges from between US$2.5/$1000 to US$6/1000 (0.25% - 0.6%).

[6] **Mr. Charles Craig** – An International Title Guarantor's Perspective, March 30, 2004. Charles Craig is Senior Vice President and Counsel at Stewart International and oversees Stewart's international title insurance division. Ccraig@stewartinternational.com

Before entering a country, Stewart carefully assesses the risk of that country, considering factors similar to those specified in the LARA project (page 13) such as the existence of a reliable and enforceable legal system, the quality of public records, the existence of informal title systems, and government (i.e. nationalization of property) risk. Policies can be custom tailored to an investor's requirements as well as the conditions within a country. As an example, in a country with good records but a relatively high potential for nationalization of property, Stewart is able to write insurance against documentation conflicts (competing title history) but leave uncovered the possibility of nationalization. Additionally, in countries where the title registration process is known to be exceptionally long (six to twelve months), Stewart offers 'gap' insurance to bridge the registration period. This is valuable because it provides the assurance needed by many banks to finance transactions and acts as a market facilitator.

For title insurance, Stewart has two types of customers. The first is the individual property owner such as the individual interested in a vacation home, or ex-patriots employed by corporations with commercial operations in a foreign country. The second market is the bank or mortgage lender seeking insurance for a new or pre-existing portfolio of mortgages. When Mr. Craig started speaking about Stewart's services, he highlighted the importance of this sector, as banks search for new sources of liquidity internationally. Almost by definition, a mortgage portfolio must have quantifiable risks before it can be securitized and sold. Mr. Craig explained that there are primarily three risks associated with mortgages: credit risk (inability to pay the mortgage), appraisal risk (incorrect estimation of market value), and title risk (seller lacks the title to sell, or mortgage does not have super priority). Of the three, title risk is the only risk that can result in a complete loss to the mortgagor, and thus is the most critical risk, particularly in cross-border lending.

Stewart serves mortgage lenders by reviewing and insuring entire portfolios, making it possible to securitize the portfolios, and thus enabling the secondary mortgage market in a country with a developing financial industry. As described elsewhere in this paper, the securitized secondary mortgage market is recognized increasingly as a critically important factor to a country's ability to finance capital projects and thus gain ground in general economic progress.

In addition to writing title insurance within countries, Stewart consults at the government level to countries that are making efforts to upgrade their land registration systems. Government bureaucracies can be slow to adopt the efficiencies and information transparency brought by technology, and in the case of land registration, the lack of an efficient information system is perhaps the single greatest obstacle to an efficient and accessible real estate market. Stewart has engaged in title registration and privatization projects in:

Moldova	Georgia	Mexico
Ukraine	Slovakia	St. Lucia
Hungary	Serbia	Trinidad & Tobago

The fact that such a wide variety of developing countries recognize the need to upgrade their land registration systems and that there is an organization that is able to effectively deploy such systems is an important indicator of the impending growth in accessibility of developing nation real estate.

INTERVIEW – An Academic Perspective[7]

Key points:

- As developing nations' investment environments stabilize, international companies seeking to increase operations in a country may purchase real estate for reasons other than long term income or short term capital appreciation; i.e. for occupation and operations; and
- The importance of functional real estate markets to the welfare of developing nations is typically underestimated.

Professor Kim emphasized the dual effect that trans-national investing can have in a country. On the one hand, there is an inflow of capital through investments in buildings and property. On the other hand, if the conditions change and the country becomes more risky, that investment might suddenly leave, exacerbating the troubles that led to the increased risk. As problematic as this can be, in the case of Vietnam, this had the unpredicted but positive consequence of stimulating the development of the local mortgage industry (particularly through the Asian Commercial Bank) where none had existed previously.

Professor Kim has seen cases of immense real estate capital appreciation (doublings per year) in China, Vietnam and Korea. This typically occurred during the recovery period after an economic bust, lending credence to the theory of abnormal returns in volatile economies.

Regarding the question of services available to assist developing nations in improving land and title registration systems, the Swedish international development agency has been providing support in Vietnam. Also, the Central European Land Knowledge Center (Budapest) has been successful in Hungary and is now expanding its support throughout Central Europe.

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[7] **Assistant Professor Annette Kim** – An Academic Perspective, March 31, 2004. Professor Kim teaches in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology. Her research includes land ownership issues in Asia, particularly China, South Korea, and Vietnam. annette@mit.edu

Interview Summary

Combining the insights from these participants in the industry paints a picture of a fractured market. The condition of real estate markets in different countries varies widely as does the quality of information available about real estate in each country. There is also a wide variety of types of participants or actors, each with his/her own individual motivations for being involved in the market. There does not appear to be any single coordinating element driving advancement.

One fact that is striking is that virtually ever single interviewee (as well as participants in several discussions not summarized in this paper) emphasized the lack of land registration and secure title as one of the greatest obstacles to market development. Considering the importance of this issue, there seems to be rather limited awareness of the expanding services provided by Stewart International and the International Consortium of Real Estate Associations. This is a testament to the speed at which the market is developing.

PART III. Towards Market Functionality – The Enabling Role of Organizations

This paper has examined various theoretical aspects of the potentials and pitfalls of real estate investment in developing nations. Based on this, relevant current-day activities of individuals and institutions have been reviewed through interview and research. The result has been that the evolution of the fundamental institutions and infrastructures necessary for investor confidence is actively evolving and there seems to be a consensus that this evolution will continue. It is important to note that as these developments occur, they do not occur with a purely internal perspective – in this realm, little development occurs without a full consideration for the needs of global integration.

The focus of this paper now changes from infrastructure to market information and the operational facilitation of actual transactions. The market for any good can range in depth from a single unique item with little information and lumpy price finding to a commodity product with a broad supply and instantaneous market price setting. Where a market exists on this continuum is largely a product of transparency of information and the magnitude of transaction costs.

There are a variety of organizations involved in the development of the international property market, each with its own unique goals and contribution to general progress. In this section, a broad cross section of organizations is examined[8] in order to establish a general understanding of the current state of the market, the availability of different resources and information, and expectations for the future. This is not meant to be an exhaustive list of organizations, but many of the critical ones are identified here.

In order to understand the relative roles and inter-relationships of the organizations within the broad front of market development, this paper proposes a framework (Figure 6) that breaks the activity around market development into four categories:

- **Regulatory**. This concerns the regulatory issues within a country affecting the ownership, purchase, and sale of property. Organizations in this grouping lobby at the government level and tend to promote issues such as international harmonization of laws and reforms of ownership and tax regimes;
- **Infrastructure**. Organizations placed in this grouping focus on the development of non-government institutions that support the development of markets. This includes organizations such as local banks offering financial products and national real estate associations establishing common practices for brokers;
- **Evaluation**. This concerns resources devoted to the identification and valuation of properties and includes organizations/ services similar to the well known US Multiple Listing Service (MLS); and

[8] Note that many of the descriptions of the individual organizations in this section are taken directly from the organizations' web sites.

- **Execution**. This involves issues related to the actual closing of a transaction such as international peer-to-peer broker communications, investor awareness of local laws, restrictions, and practices.

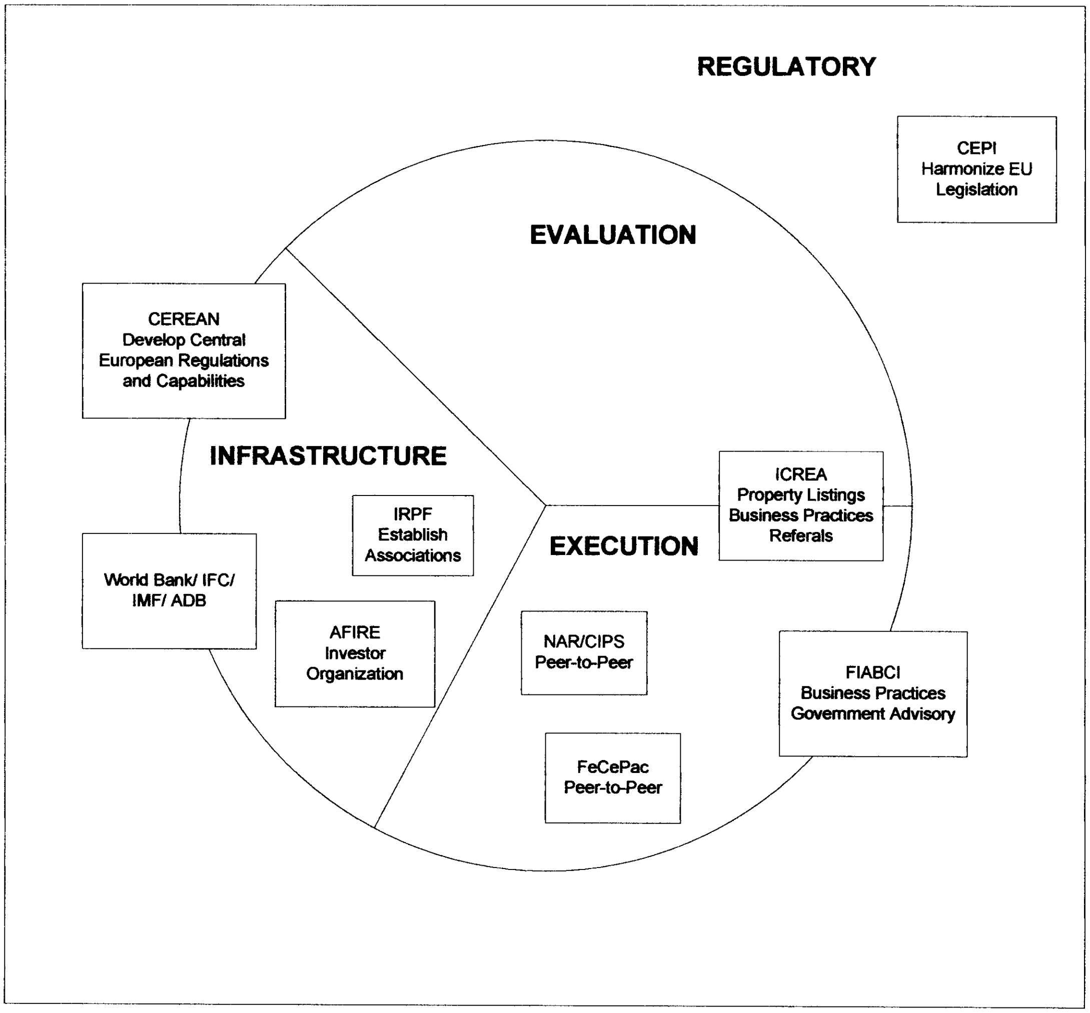


Figure 6. Mapping of Organizations

Regulatory

CEPI - Europa Council of Real Estate Professionals (CEPI) (Headquartered in Brussels; see www.cepi.be)

CEPI is a European organization focused on contact with government authorities and harmonizing legislation related to real estate in Europe. CEPI assists incumbent members of the EU in meeting the standards required by the EU in real estate market issues.

The organization also provides a forum for its members (national associations) to trade information. In that regard, CEPI also serves as an infrastructure element, however its primary function appears to be regulatory.

Infrastructure

Infrastructure includes those issues involved in facilitating market functionality. It includes such things as developing a mortgage industry, national associations of real estate brokers (with training and licensing requirements, etc.), and trans-national agreements between national associations. It is distinguishable from the regulatory category in that it is not directly concerned with government policy.

World Bank/ IFC / IMF/ ADB (Headquartered in Washington D.C.; see **www.worldbank.org**, **www.ifc.org**, **www.imf.org**. Headquartered in Manila; see **www.adb.org**

The World Bank, the International Finance Corporation (IFC), the International Monetary Fund (IMF) and the Asian Development Bank (AD) are four international organizations that provide funding and expertise for the development of projects towards social good. Individually and collectively, they are an important force in the ability of any given country to upgrade its investment infrastructure in that they represent allegedly non-partisan, objective expertise and capital with a global perspective. These organizations provide a resource to transition economies. Their current activities provide insight into the efforts underway in different parts of the world as well as an indication as to which stage of progress a given country has reached.

Project information is generally publicly accessible, and as an example of the type of information that can be derived from these organizations, the following list is a compilation of IFC projects appearing in response to a search of their website in using the term 'mortgage'. The list is sorted by project type (Figure 7).

The list shows that:

- The IFC is involved in a number of mortgage related projects in various parts of the world;
- Most projects involve the primary mortgage market, which is a prerequisite for the mortgage backed securities projects (secondary market); and
- The country and nature of the projects are publicly available information.

Project Name	Date	Region	Type
Philippines - LARES	14-Apr-03	ASIA	Land Records Management
South Africa - SOUTH AFRICA HOME LOAN...	27-Apr-00	AFR	Mortgage Backed Securities
Korea, Republic of - Korea Mortgage C...	6-Dec-99	ASIA	Mortgage Backed Securities
Mexico - Hipotecaria Su Casita, S.A. ...	26-Feb-01	CAM	Mortgage Backed Securities
Bulgaria - Bulgarian American Credit ...	27-Feb-02	CEU	Mortgage Backed Securities
Central Europe Region - BalAEF MBS	24-Feb-04	CEU	Mortgage Backed Securities
Mexico - GENERAL HIPOTECARIA	28-Oct-96	CAM	mortgage securitization
South Africa - SAHL-MBS	7-Aug-01	CEU	mortgage securitization
Central Europe Region - Baltic Americ...	2-May-02	CEU	mortgage securitization
Russian Federation - DeltaCredit Bank	27-Jan-03	CEU	mortgage securitization
Colombia - COLOMBIAN HOME MORTGAGE CO	8-May-97	SAM	mortgage securitization
Brazil - Companhia Brasileira de Secu...	27-Mar-98	SAM	mortgage securitization
Argentina - The Argentine Mortgage Co...	21-Sep-99	SAM	mortgage securitization
Colombia - COLOMBIAN HOME MORTGAGE CO	26-May-00	SAM	mortgage securitization
Bangladesh - DeltaBRAC Housing Financ...	1-May-97	ASIA	primary mortgage
India - Sundaram Home Finance Ltd.	14-Sep-99	ASIA	primary mortgage
China - Advantage China Holdings Limi...	27-Apr-01	ASIA	primary mortgage
India - Sundaram Home Finance Ltd.	27-Jul-01	ASIA	primary mortgage
India - Dewan Housing Finance Corpora...	30-Dec-02	ASIA	primary mortgage
India - HDFC - Loan	4-Mar-03	ASIA	primary mortgage
China - Anjia	6-Mar-03	ASIA	primary mortgage
India - India Mortgage Guarantee Comp...	3-Jun-03	ASIA	primary mortgage
Caribbean Region - Eastern Caribbean ...	20-Apr-95	CAM	primary mortgage
Panama - Banco General S.A.	16-Dec-96	CAM	primary mortgage
Estonia - As Eesti Uhispank Mortgage ...	25-Nov-98	CEU	primary mortgage
Georgia - Bank of Georgia Credit Line	11-Jan-00	CEU	primary mortgage
Georgia - TBC Bank Credit Line II	13-Apr-01	CEU	primary mortgage
Russian Federation - Delta Credit	15-Jan-02	CEU	primary mortgage
Romania - Ro-Fin Mortgage Loan Compan...	22-Nov-02	CEU	primary mortgage
Russian Federation - RZB Russia	7-Mar-03	CEU	primary mortgage
Russian Federation - BSGV - SocGen Vo...	14-Jan-04	CEU	primary mortgage
Lebanon - Banque Audi SAL –Credit Li...	25-Apr-96	MEA	primary mortgage
West Bank and Gaza - Palestine Mortga...	25-Mar-98	MEA	primary mortgage
Egypt - EAB Housing Finance Company	19-Mar-03	MEA	primary mortgage
Argentina - Banco del Suquia Credit L...	23-Jan-98	SAM	primary mortgage
Peru - Interbank WHL	3-Nov-03	SAM	primary mortgage

Figure 7. Summary of IFC mortgage related initiatives

IRPF - International Real Property Foundation (Headquartered in Chicago; see www.irpf.org)

The IRPF is a non-profit organization dedicated to the development of real property markets in developing countries. IRPF provides professional training for brokers and facilitates the establishment of brokerage associations and requisite guidelines for broker conduct. The initial scope was Eastern Europe and they are expanding to other regions.

The IRPF does not provide property listings or information about the business practices in individual countries. IRPF exists to develop a more professional brokerage environment within countries; i.e. to institutionalize the profession.

CEREAN - Central European Real Estate Association Network (Headquartered in Warsaw; see www.cerean.com)

The Central European Real Estate Associations Network is a registered, non governmental, not for profit organization. CEREAN is concerned with the development of ethical and professional real estate markets in the member countries. The emphasis is also on the promotion of home ownership within a democratic system of government.

CEREAN's core activities include promotion of harmonization of laws in conjunction with the EU-accession, educational programs and certification standards, data collection, research and analysis, lobbying, organizing conferences, workshops and seminars, creating a forum for real estate interests, increasing safety of investments in the region by implementing business practices and standards.

CEREAN members are committed to the following principles:

- The development of an organized, ethical and trained real estate profession committed to the protection of the public;
- The establishment and preservation of private property as a fundamental right of citizens living under a democratic system of government;
- The promotion of home ownership as one of the key elements in the development and perpetuation of free societies; and
- The creation of efficient and equitable real estate markets within legal and regulatory environments that are supportive of those markets and open to citizen participation.

Member countries are:

Poland	Czech Republic	Hungary
Russia	Slovakia	Bulgaria
Latvia	Ukraine	Romania

CEREAN is primarily a contact base for local real estate associations, a calendar of events within member markets, and a training group.

AFIRE - Association of Foreign Investors in Real Estate (Headquartered in Washington, DC; see www.afire.org)

The Association of Foreign Investors in Real Estate (AFIRE) is a trade association for the foreign real estate investment community whose members have a common interest in preserving and promoting international real estate investment. Since 1988, AFIRE has provided a forum through which the foreign investment community can discuss common issues and problems, through membership meetings, a newsletter, tax and legislative updates, and other publications.

AFIRE represents large foreign investors in the US market, and US investors in non-US markets.

Evaluation

From the commercial perspective, the existence of a global property database as well as the availability of information about the business practices in each country (such as legal system and land registration) are critical for operations at the trans-national level. The extent to which this clearinghouse of information exists is an excellent gauge of the extent to which the industry has become functionally 'global'. The 'evaluation' category of activity represents the ability to market international properties in a systematic and efficient way; i.e. a database of international property listings along with the contact resources needed to pursue the listings.

It was possible to find only one organization which appears to be building a database with such a broad scope (ICREA, below). The development of this database resource, with the ability to search by various property characteristics regardless of country, is perhaps the single strongest indicator to the existence of a truly international real estate market.

ICREA - International Consortium of Real Estate Associations (Headquartered in Chicago; see **www.worldproperties.com**)

"**The International Consortium of Real Estate Associations (ICREA)** is an alliance whose members are leading national real estate organizations in the world's major markets. Through a multilateral agreement and specific business practice protocols, this alliance provides significant benefits not only to its constituent members who seek to do transnational business but to its domestic constituents as well. ICREA's primary objective is to assist members of the respective organizations in efficiently and profitably facilitating transnational business."

The consortium was founded in 2001 in Washington DC. According to information provided by ICREA, "ICREA was formed to help brokers throughout the world cross those international borders along with the buyers and sellers of property and to stay in the middle of international real estate transactions to better serve their customers and clients. There are a number of hurdles that brokers must clear to achieve success in the international markets such as managing the impact of tax and financing differences from country to country, and ICREA is providing the guidance, tools, resources and support to help them do business easily and profitably in a growing international marketplace.

ICREA works for the benefit of transnational markets by providing:

- a property marketing database;
- a database of business practices (Figure 8);
- direct links to national associations by country;

- a protocol (including arbitration of disputes) for transnational referrals; and
- a code of ethics for brokers.

Summary of key elements of business practices by country as taken from ICREA site:

COUNTRY	Foreign Ownership	Title Registration	Centralized Marketing
ARGENTINA	no significant restrictions	Public/ computerized	http://www.som.com.ar. National coverage, self proclaimed primary resource. Non-profit.
AUSTRALIA		Public/ computerized/ some Torrens[9]	No coordinated system
BRAZIL	No significant restrictions	Public/ some computerized	No coordinated system
CANADA	'border' restrictions and acreage restrictions	Some registry, some land titles/ some Torrens	70% of properties on MLS, owned by Canadian Real Estate Association
CZECH REPUBLIC	Via a foreign owned Czech company	cadastre	No coordinated system
DENMARK		Central land registry	www.boligsiden.dk (residential) – www.oline.dk (commercial) Public access/ Danish language only
FINLAND		Centralized/ computerized	
FRANCE	No significant restrictions		www.fnaim.fr. Federal association of brokers. French language only.
GREECE	No restrictions for EU citizens, non-EU citizens must have permission to buy near borders	Mixed notary registration and cadastre, under improvement	No coordinated system
HONG KONG - CHINA	No significant restrictions	Document registration, not title registration	No coordinated system
INDIA	No significant restrictions	Government/ some computerized	No coordinated system
IRELAND	No significant restrictions	Includes online registration of transactions	www.iavi.ie. National coverage, self proclaimed primary resource.
ITALY		Buyer bears burden of checking multiple administrations	
KOREA	No significant restrictions	Public/ computerized	
MEXICO	'Border' restrictions	Public/ computerized	No coordinated system
NETHERLANDS	No significant restrictions	Centralized/ public/ cadastre	Funda. Private (no public access) online centralized and mandatory usage for all brokers.
NEW ZEALAND	New Zealand residency required	Centralized/ some computerized/ Torrens	No coordinated system
NORWAY	Concession required	Centralized register/ some computerization	No coordinated system

[9] Torrens System: Titles registration as opposed to deed registration. The important characteristic is that the government guarantees the title certificate.

POLAND	Permit required	'Land Book' system, guaranteed by government/ cadastre system being introduced	No coordinated system
RUSSIA	'Border' restrictions	Centralized land registration	No coordinated system
SINGAPORE	No significant restrictions	Torrens system/ computerized	No coordinated system
SWEDEN	No significant restrictions	Centralized/ computerized	No coordinated system
UNITED KINGDOM	Value based stamp duty	Centralized/ some computerized	
UNITED STATES	State law, some minor restrictions	By state	MLS – private not public. Also www.realtors.com, national public database subset.
VENEZUELA	No significant restrictions	By municipality/ mostly manual/ some computerized	No coordinated system

Figure 8. Summary of ICREA business practice database by country

Additional factors listed in this database:

- Licensing Requirements
- Foreign Ownership
- Land Registration System
- Related Professions (such as property managers, lawyers, administrators, etc).
- Code of Ethics
- Dispute Resolution Resources
- Broker Services
- Property Marketing Systems
- Referral Systems
- Contractual Standards
- Broker Remuneration

Execution

Execution involves the final enablement of a transaction and includes efforts at establishing peer-to-peer broker relationships (as opposed to association-to-association) as well as publicly accessible information related to the details of law, tax, and foreign ownership (the lack of these details represents a significant barrier-to-entry into a country for investors).

NAR/CIPS - National Association of Realtors (NAR) site for Certified International Property Specialists (CIPS) (Headquartered in Chicago; see http://www.realtor.org/rodesign.nsf/pages/internationalctr?OpenDocument)

CIPS designates members of the NAR that have satisfied stringent requirements including a history of international transactions and education. CIPS is meant as a resource for real estate professionals specializing in foreign transactions or assisting foreign investors in domestic markets; i.e. essentially a peer-to-peer network and training programs. CIPS has affiliations with a number of international real estate organizations including those of the following countries:

Argentina	Australia	Bahamas	Brazil	Bulgaria	Canada	Chile	China
Colombia	Costa Rica	Czech Republic	Denmark	El Salvador	Finland	France	Germany
Greece	Guatemala	Honduras	Hong Kong/China	Hungary	India	Indonesia	Ireland
Israel	Italy	Jamaica	Japan	Korea	Malaysia	Mexico	Netherlands
New Zealand	Nicaragua	Norway	Panama	Paraguay	Peru	Philippines	Poland
Portugal	Romania	Russia	Singapore	Slovakia	South Africa	Spain	Sweden
Thailand	Ukraine	United Kingdom	Venezuela				

FIABCI – The International Real Estate Federation (Headquartered in Paris; US office in Arlington, VA; see www.fiabci.com and www.fiabci.org)

Founded in 1951, Fiabci (the International Real Estate Federation) is a non-profit association with two distinct branches:

- "A federation of professional real estate organizations - as a federation, Fiabci currently has 120 members in over 60 countries and serves its member organisations by :

  - defending the collective interests of the real estate professions, i.e. in the contexts of professional licensing, protecting private property rights and promoting public/private sector partnerships;
  - providing access to international information through the various Fiabci media such as internal reports, fiabci.org, Fiabci-Press and the annual members' directory;
  - improving its members' international positioning by allowing them to promote their services and events through the Fiabci network;
  - enabling its members to offer new services to their own members such as joining the Fiabci business club at preferential rates; and
  - creating dialogue and action with professional real estate organizations from around the world through the exchange and comparison of ideas and experiences.

- An international business club for individual real estate practitioners."

In contrast to ICREA, FIABCI includes organizations, individuals, and companies representing a range of real estate professions. The FIABCI site includes a database of information over what appears to be every recognized country in the world on a series of business factors that is much greater than the business factors listed under ICREA.ORG (For a complete list of the FIABCI-specified factors, see Attachment F). Note that while FIABCI lists these factors, the database is sparsely populated.

FIABCI does not, however, provide a property listing database.

FeCePAC - Federation of Real Estate Associations of Central America (FeCePAC)
(Headquartered in San Jose, Costa Rica; see www.fecepac.org)

Central American organization focused on maintaining a list of real estate professionals in member countries:

Dominican Republic	Honduras	Panama
Guatemala	Nicaragua	
El Salvador	Costa Rica	

PART IV. Conclusion

Where, then, are developing nations in the globalization of real estate markets? This paper first examined the underlying forces driving the formation of the markets; i.e. strong potential for profit for investors and significant social benefits for countries. At the same time, the primary obstacles to market development were categorized and included finance and risk management, RICE (rights, information, contracting and enforcement), market regulation, and lack of historical statistics. From the perspective of the international investor, the most important factors are reliable title registration systems or title guarantee, an expectation for political stability and growth, and efficient access to information related to available properties and local business practices.

Given the supply and demand side benefits to the existence of functional markets, evolution appears to be following the pattern of a virtuous cycle – investor opportunity fuels reforms which increases value which provides local benefits which increase demand and which provide additional investor opportunities. Besides the actual buyers and sellers, there are many different organizations involved in the promotion of this cycle. A framework was defined to assist in understanding the relational context of these organizations and by categorizing their activities as regulatory, infrastructure, evaluation and execution. A number of organizations were reviewed and the organizations were placed within this framework. What was found was that effort in the areas of regulation and infrastructure have been strong for several years; effort in the area of execution have matured, particularly in the area of broker networks such as the National Association of Realtors CIPS qualification, though information on individual country practices is still somewhat limited; and effort in the area of evaluation, such as worldwide property databases and statistical history is only very recently being started. The two most important examples of this are the International Consortium of Real Estate Associations' (ICREA) world-properties database started in 2001 and the IMF's first conference on international real estate indices in 2003.

Because of the number of actors involved, progress is somewhat unpredictable and uncoordinated. There appears to be a discontinuity of knowledge amongst participants within the field regarding the current state of topics such as universally available market information, business practice information, and title insurance. As examples, the Financial Engineer is aware of Stewart International's ability to write title insurance but not its ability to provide land registration systems consulting to governments and neither the Financial Engineer, the Academic, nor the investors were aware of the existence of ICREA.

To understand the current state of any one country, it is necessary to look at information from several sources. There is no single indicator which identifies the complete condition of a market and different factors will mean different things to people with different interests. As an example, the decision factors for smaller private investors (as described by the Financial Engineer) are very different from the factors for the institutional investors. They both focus on international real estate investment, but judge markets to be accessible and viable using very different criteria.

Based on the interviews, an evolution of the market can be laid out that shows the relationship between these investor classes:

- Basic improvements in land titling, legal systems and political stability.
- Small to medium independent investors with special knowledge seeking short term capital appreciation invest.
- Corporations with operational presence invest in real estate as a secondary activity necessitated by their physical operations (plant, building, factory, etc).
- Title insurance becomes available form international providers.
- The environment reaches a recognized level of political and investment stability.
- Institutional investors managing large amounts of capital invest in downtown commercial properties seeking stable income streams as well as the ability to provide diversification into the real estate sector against other assets *within the country* for domestically invested capital.

This paper has found that developing nation real estate markets are today in a state of rapid evolution. Four elements in particular highlight the current state of progress:

- International awareness of the importance of these markets. Several multi-lateral organizations provide resources to developing nations to improve their infra-stuctures. In addition, in 2003 the IMF hosted its first ever conference specifically devoted to tackling the problem of harmonizing real estate statistics across national boundries.
- ICREA's effort, starting in 2001, at developing a worldwide property database similar in nature to the US Multiple Listing Service.
- Trans-national broker-to-broker and association-to-association networking efforts emphasizing a code of ethics, referral protocols and structured practices. Organizations sponsoring this activity include ICREA, FIABCI, NAR, FeCePac, and IRPF.
- The availability of title insurance written by a developed nation underwriter such as Stewart International and others. This addresses on of the primary concerns raised by virtually all of the interviewees and the relevant literature – that of investment security related to land registration and judicial systems. This is an emerging service that is aggressively adding countries.

Based on these points, one can expect that the real estate markets in developing nations are developing and will continue to develop rapidly in the near term. These markets are gaining greatly in importance and accessibility and will attract significantly increasing amounts of foreign investment in the near future.

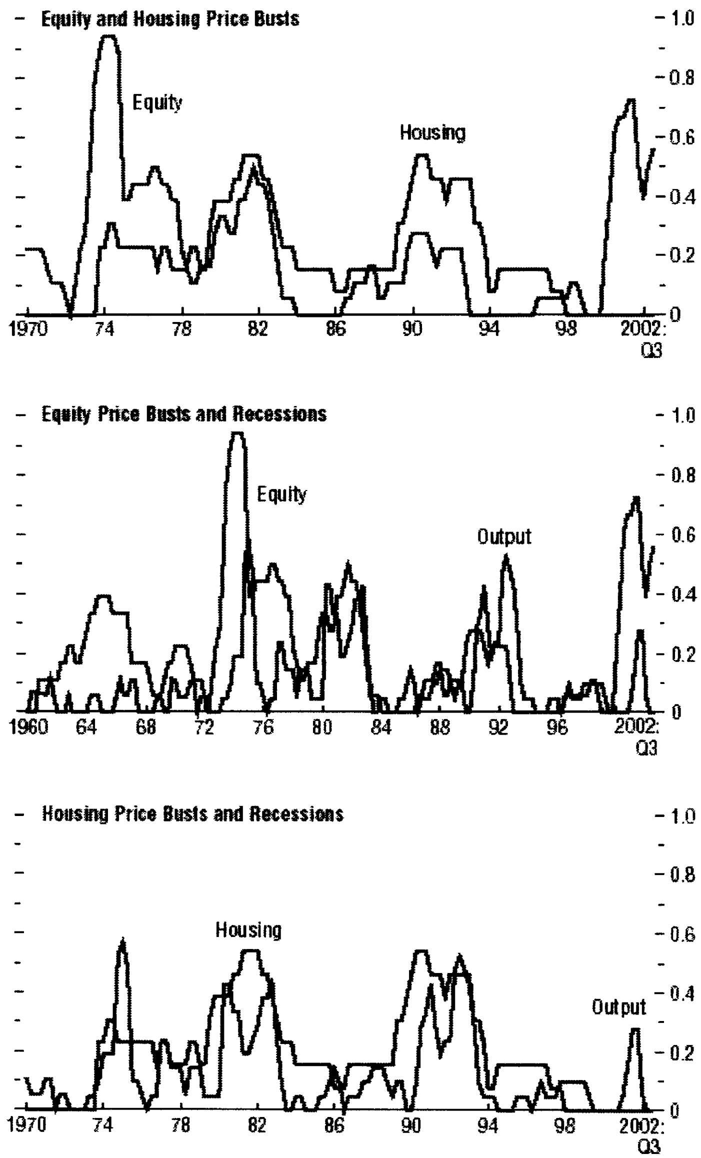
ATTACHMENTS

Attachment A. Cross border correlation of equity and housing price busts [Helbling 2003]

Figure 2.2. Comparing Cross-Border Synchronization[1]

(Number of countries in a bust or recession, as a fraction of all countries)

Equity and housing price busts tend to be synchronized, as manifested by their clustering, and tend to overlap with recessions.



Source: IMF staff calculations.

[1]Recessions are identified on the basis of peaks and troughs in output. See Chapter 3 of the April 2002 *World Economic Outlook* for details.

Attachment B World Population Forecast

Source: U.S. Bureau of the Census, International Data Base

WORLD

Year	Population	% chg
1950	2,555,360,972	
1951	2,593,146,958	1.48%
1952	2,635,207,347	1.62%
1953	2,680,544,579	1.72%
1954	2,728,516,402	1.79%
1955	2,779,968,031	1.89%
1956	2,832,927,339	1.91%
1957	2,888,754,389	1.97%
1958	2,945,260,952	1.96%
1959	2,997,596,052	1.78%
1960	3,039,669,330	1.40%
1961	3,080,461,502	1.34%
1962	3,136,556,092	1.82%
1963	3,206,072,286	2.22%
1964	3,277,192,099	2.22%
1965	3,346,224,081	2.11%
1966	3,416,462,939	2.10%
1967	3,486,218,303	2.04%
1968	3,558,100,709	2.06%
1969	3,632,780,614	2.10%
1970	3,708,067,105	2.07%
1971	3,785,654,106	2.09%
1972	3,862,348,766	2.03%
1973	3,938,532,049	1.97%
1974	4,014,079,183	1.92%
1975	4,087,344,760	1.83%
1976	4,159,142,342	1.76%
1977	4,231,356,327	1.74%
1978	4,303,528,613	1.71%
1979	4,378,614,022	1.74%
1980	4,454,269,203	1.73%
1981	4,530,133,767	1.70%
1982	4,610,238,775	1.77%
1983	4,690,492,539	1.74%
1984	4,769,804,546	1.69%
1985	4,850,401,051	1.69%
1986	4,932,725,468	1.70%
1987	5,017,868,280	1.73%

LESS DEVELOPED COUNTRIES

Year	Population	% chg
1950	1,748,616,347	
1951	1,776,306,414	1.58%
1952	1,808,384,556	1.81%
1953	1,843,583,365	1.95%
1954	1,881,269,552	2.04%
1955	1,922,250,969	2.18%
1956	1,964,711,340	2.21%
1957	2,009,954,616	2.30%
1958	2,056,004,676	2.29%
1959	2,097,650,289	2.03%
1960	2,129,297,918	1.51%
1961	2,159,250,794	1.41%
1962	2,204,589,203	2.10%
1963	2,263,837,914	2.69%
1964	2,324,967,337	2.70%
1965	2,384,626,208	2.57%
1966	2,446,174,949	2.58%
1967	2,507,739,702	2.52%
1968	2,571,570,029	2.55%
1969	2,638,078,431	2.59%
1970	2,704,863,379	2.53%
1971	2,773,257,432	2.53%
1972	2,841,328,195	2.45%
1973	2,909,325,029	2.39%
1974	2,976,966,931	2.33%
1975	3,042,463,540	2.20%
1976	3,107,129,270	2.13%
1977	3,172,158,219	2.09%
1978	3,237,261,171	2.05%
1979	3,305,248,094	2.10%
1980	3,373,470,667	2.06%
1981	3,442,555,064	2.05%
1982	3,516,395,743	2.14%
1983	3,590,700,586	2.11%
1984	3,664,224,614	2.05%
1985	3,738,928,141	2.04%
1986	3,815,098,862	2.04%
1987	3,894,256,108	2.07%

MORE DEVELOPED COUNTRIES

Year	Population	% chg
1950	806,744,625	
1951	816,840,544	1.25%
1952	826,822,791	1.22%
1953	836,961,214	1.23%
1954	847,246,850	1.23%
1955	857,717,062	1.24%
1956	868,215,999	1.22%
1957	878,799,773	1.22%
1958	889,256,276	1.19%
1959	899,945,763	1.20%
1960	910,371,412	1.16%
1961	921,210,708	1.19%
1962	931,966,889	1.17%
1963	942,234,372	1.10%
1964	952,224,762	1.06%
1965	961,597,873	0.98%
1966	970,287,990	0.90%
1967	978,478,601	0.84%
1968	986,530,680	0.82%
1969	994,702,183	0.83%
1970	1,003,203,726	0.85%
1971	1,012,396,674	0.92%
1972	1,021,020,571	0.85%
1973	1,029,207,020	0.80%
1974	1,037,112,252	0.77%
1975	1,044,881,220	0.75%
1976	1,052,013,072	0.68%
1977	1,059,198,108	0.68%
1978	1,066,267,442	0.67%
1979	1,073,365,928	0.67%
1980	1,080,798,536	0.69%
1981	1,087,578,703	0.63%
1982	1,093,843,032	0.58%
1983	1,099,791,953	0.54%
1984	1,105,579,932	0.53%
1985	1,111,472,910	0.53%
1986	1,117,626,606	0.55%
1987	1,123,612,172	0.54%

1988	5,103,535,612	1.71%	1988	3,973,856,099	2.04%	1988	1,129,679,513	0.54%
1989	5,189,207,608	1.68%	1989	4,053,082,669	1.99%	1989	1,136,124,939	0.57%
1990	5,275,885,289	1.67%	1990	4,132,925,051	1.97%	1990	1,142,960,238	0.60%
1991	5,359,825,640	1.59%	1991	4,209,776,457	1.86%	1991	1,150,049,183	0.62%
1992	5,443,765,351	1.57%	1992	4,286,944,720	1.83%	1992	1,156,820,631	0.59%
1993	5,525,169,405	1.50%	1993	4,362,602,815	1.76%	1993	1,162,566,590	0.50%
1994	5,605,360,839	1.45%	1994	4,437,990,671	1.73%	1994	1,167,370,168	0.41%
1995	5,685,987,096	1.44%	1995	4,514,226,229	1.72%	1995	1,171,760,867	0.38%
1996	5,765,160,757	1.39%	1996	4,589,274,344	1.66%	1996	1,175,886,413	0.35%
1997	5,844,905,888	1.38%	1997	4,664,867,280	1.65%	1997	1,180,038,608	0.35%
1998	5,923,690,063	1.35%	1998	4,739,623,385	1.60%	1998	1,184,066,678	0.34%
1999	6,001,998,609	1.32%	1999	4,813,930,969	1.57%	1999	1,188,067,640	0.34%
2000	6,079,006,982	1.28%	2000	4,886,959,533	1.52%	2000	1,192,047,449	0.33%
2001	6,154,325,843	1.24%	2001	4,958,662,200	1.47%	2001	1,195,663,643	0.30%
2002	6,228,641,303	1.21%	2002	5,029,508,673	1.43%	2002	1,199,132,630	0.29%
2003	6,302,486,693	1.19%	2003	5,099,914,634	1.40%	2003	1,202,572,059	0.29%
2004	6,375,882,069	1.16%	2004	5,169,903,166	1.37%	2004	1,205,978,903	0.28%
2005	6,448,780,202	1.14%	2005	5,239,420,732	1.34%	2005	1,209,359,470	0.28%
2006	6,521,494,913	1.13%	2006	5,308,799,182	1.32%	2006	1,212,695,731	0.28%
2007	6,594,267,667	1.12%	2007	5,378,300,417	1.31%	2007	1,215,967,250	0.27%
2008	6,667,044,578	1.10%	2008	5,447,881,137	1.29%	2008	1,219,163,441	0.26%
2009	6,739,747,814	1.09%	2009	5,517,474,210	1.28%	2009	1,222,273,604	0.26%
2010	6,812,232,913	1.08%	2010	5,586,949,906	1.26%	2010	1,225,283,007	0.25%
2011	6,884,680,742	1.06%	2011	5,656,488,845	1.24%	2011	1,228,191,897	0.24%
2012	6,957,190,706	1.05%	2012	5,726,188,177	1.23%	2012	1,231,002,529	0.23%
2013	7,029,452,129	1.04%	2013	5,795,748,376	1.21%	2013	1,233,703,753	0.22%
2014	7,101,255,649	1.02%	2014	5,864,964,832	1.19%	2014	1,236,290,817	0.21%
2015	7,172,399,721	1.00%	2015	5,933,638,971	1.17%	2015	1,238,760,750	0.20%
2016	7,242,843,269	0.98%	2016	6,001,778,799	1.15%	2016	1,241,064,470	0.19%
2017	7,312,598,488	0.96%	2017	6,069,438,806	1.13%	2017	1,243,159,682	0.17%
2018	7,381,526,741	0.94%	2018	6,136,466,992	1.10%	2018	1,245,059,749	0.15%
2019	7,449,524,298	0.92%	2019	6,202,743,912	1.08%	2019	1,246,780,386	0.14%
2020	7,516,490,493	0.90%	2020	6,268,158,350	1.05%	2020	1,248,332,143	0.12%
2021	7,582,463,925	0.88%	2021	6,332,734,931	1.03%	2021	1,249,728,994	0.11%
2022	7,647,488,329	0.86%	2022	6,396,501,382	1.01%	2022	1,250,986,947	0.10%
2023	7,711,446,874	0.84%	2023	6,459,324,333	0.98%	2023	1,252,122,541	0.09%
2024	7,774,278,190	0.81%	2024	6,521,122,678	0.96%	2024	1,253,155,512	0.08%
2025	7,835,948,323	0.79%	2025	6,581,846,003	0.93%	2025	1,254,102,320	0.08%
2026	7,896,582,430	0.77%	2026	6,641,613,623	0.91%	2026	1,254,968,807	0.07%
2027	7,956,320,645	0.76%	2027	6,700,561,916	0.89%	2027	1,255,758,729	0.06%
2028	8,015,121,154	0.74%	2028	6,758,632,349	0.87%	2028	1,256,488,805	0.06%
2029	8,072,963,620	0.72%	2029	6,815,790,835	0.85%	2029	1,257,172,785	0.05%
2030	8,129,826,136	0.70%	2030	6,872,013,080	0.82%	2030	1,257,813,056	0.05%
2031	8,185,814,519	0.69%	2031	6,927,433,238	0.81%	2031	1,258,381,281	0.05%
2032	8,241,024,017	0.67%	2032	6,982,178,992	0.79%	2032	1,258,845,025	0.04%
2033	8,295,349,221	0.66%	2033	7,036,149,151	0.77%	2033	1,259,200,070	0.03%
2034	8,348,737,705	0.64%	2034	7,089,293,210	0.76%	2034	1,259,444,495	0.02%
2035	8,401,170,273	0.63%	2035	7,141,595,648	0.74%	2035	1,259,574,625	0.01%
2036	8,452,752,872	0.61%	2036	7,193,167,638	0.72%	2036	1,259,585,234	0.00%

2037	8,503,578,071	0.60%
2038	8,553,523,399	0.59%
2039	8,602,541,965	0.57%
2040	8,650,653,001	0.56%
2041	8,697,967,022	0.55%
2042	8,744,559,605	0.54%
2043	8,790,271,909	0.52%
2044	8,835,037,974	0.51%
2045	8,878,899,167	0.50%
2046	8,921,936,254	0.48%
2047	8,964,174,078	0.47%
2048	9,005,402,950	0.46%
2049	9,045,492,836	0.45%
2050	9,084,495,405	0.43%
	Ave annual % change from	
	1950 to 2050	**1.28%**
	Ave annual % change from	
	2004 to 2050	**0.78%**
	Est. gross % change from	
	2004 to 2050	**42%**

2037	7,244,105,694	0.71%
2038	7,294,286,587	0.69%
2039	7,343,660,911	0.68%
2040	7,392,245,425	0.66%
2041	7,440,149,769	0.65%
2042	7,487,444,934	0.64%
2043	7,533,962,884	0.62%
2044	7,579,626,927	0.61%
2045	7,624,465,419	0.59%
2046	7,668,551,387	0.58%
2047	7,711,903,713	0.57%
2048	7,754,298,928	0.55%
2049	7,795,589,558	0.53%
2050	7,835,811,768	0.52%
	Ave annual % change from	
	1950 to 2050	**1.51%**
	Ave annual % change from	
	2004 to 2050	**0.92%**
	Est. gross % change from	
	2004 to 2050	**52%**

2037	1,259,472,377	-0.01%
2038	1,259,236,812	-0.02%
2039	1,258,881,054	-0.03%
2040	1,258,407,576	-0.04%
2041	1,257,817,253	-0.05%
2042	1,257,114,671	-0.06%
2043	1,256,309,025	-0.06%
2044	1,255,411,047	-0.07%
2045	1,254,433,748	-0.08%
2046	1,253,384,867	-0.08%
2047	1,252,270,365	-0.09%
2048	1,251,104,022	-0.09%
2049	1,249,903,278	-0.10%
2050	1,248,683,637	-0.10%
	Ave annual % change from	
	1950 to 2050	**0.44%**
	Ave annual % change from	
	2004 to 2050	**0.08%**
	Est. gross % change from	
	2004 to 2050	**4%**

Attachment C. Cross border correlation of rent series returns [Torto 2002]

Table 1

	Los Angeles	New York	Chicago	Dallas	Toronto	Amsterdam	Geneva	London	Brussels	Frankfurt	Madrid	Paris	Singapore	Hong Kong	Tokyo	Jakarta	Melbourne	Sydney	Auckland	Rio De Janeiro	Sao Paulo
Los Angeles	1.000																				
New York	0.939	1.000																			
Chicago	0.908	0.967	1.000																		
Dallas	0.801	0.745	0.768	1.000																	
Toronto	0.718	0.645	0.570	0.216	1.000																
Amsterdam	-0.498	-0.617	-0.633	-0.433	-0.220	1.000															
Geneva	-0.281	-0.226	0.264	-0.777	0.366	0.217	1.000														
London	0.369	0.392	0.343	-0.149	0.794	0.047	0.691	1.000													
Brussels	-0.749	-0.802	-0.825	-0.853	-0.189	0.807	0.610	0.123	1.000												
Frankfurt	-0.603	-0.674	-0.728	-0.811	0.030	0.702	0.686	0.208	0.947	1.000											
Madrid	-0.034	-0.127	-0.195	-0.465	0.603	0.469	0.688	0.636	0.633	0.782	1.000										
Paris	-0.343	-0.390	-0.444	-0.748	0.345	0.568	0.855	0.559	0.829	0.909	0.911	1.000									
Singapore	-0.303	-0.404	-0.461	-0.174	-0.079	0.402	-0.061	-0.121	0.386	0.443	0.302	0.229	1.000								
Hong Kong	-0.611	-0.665	-0.704	-0.600	-0.274	0.646	0.321	0.080	0.654	0.551	0.281	0.437	0.497	1.000							
Tokyo	-0.286	-0.309	-0.376	-0.782	0.434	0.323	0.912	0.587	0.707	0.822	0.856	0.933	0.100	0.316	1.000						
Jakarta	0.612	0.424	0.396	0.540	0.536	0.086	-0.249	0.285	-0.252	-0.100	0.281	-0.033	0.369	-0.006	-0.119	1.000					
Melbourne	0.443	0.445	0.367	-0.125	0.897	-0.137	0.646	0.875	0.063	0.253	0.733	0.570	0.010	-0.047	0.648	0.366	1.000				
Sydney	0.159	0.071	-0.021	-0.277	0.702	0.193	0.576	0.729	0.336	0.486	0.804	0.653	0.442	0.385	0.671	0.428	0.831	1.000			
Auckland	0.341	0.473	0.468	-0.072	0.587	-0.247	0.589	0.862	-0.123	-0.105	0.240	0.255	-0.346	-0.116	0.346	-0.042	0.670	0.415	1.000		
Rio De Janeiro	-0.045	0.006	0.010	-0.451	0.487	0.212	0.763	0.830	0.401	0.426	0.656	0.681	0.154	0.377	0.634	0.036	0.725	0.725	0.721	1.000	
Sao Paulo	-0.280	-0.309	-0.345	-0.617	0.370	0.498	0.749	0.659	0.694	0.748	0.825	0.861	0.464	0.595	0.763	0.122	0.619	0.799	0.386	0.880	1.000

Attachment D. Hedonic price factors used in Brazil [Reiff 2003]

Rent	Monthly Rent Payment
Apt	Apartment or House
Wall_1	Masonry
Wall_2	Standard lumber
Wall_3	Bare wattle and daub
Roof	
Ceiling_1	Reinforced Concrete Slab
Ceiling_2	Clay tile
Ceiling_3	Zinc sheeting
Water Supply	
Water_1	Public water
Water_2	Well or spring
Sewage Type	
Sewa_1	Public Sewer
Sewa_2	Septic Tank
Sewa_3	Rudimentary Septic ditch
Garbage Collection	
Garb_1	Direct or indirect collection
Garb_2	Burned or buried
Garb_3	Disposed of on a vacant lot
Electric	Electric lighting versus gas lighting
Roomm	Number of rooms besides sleeping quarters
Roomsl	Number of rooms as sleeping quarters
Bathroom	Indoor bathrooms
Medi	Medium income
Mediadj	Adjusted LMedren
H_Ma	Metropolitan area
H_Auto	Non metropolitan area

Attachment E. Example Sources for real estate information [Boon 2003]

Sources for Information on Shanghai **Appendix 3(b)**

Economic Indicators	Websites ▪ Shanghai Municipal Statistic Bureau (www.stats-sh.gov.cn) ▪ The Peoples' Bank of China (www.pbc.gov.cn) ▪ Soufun (www.soufun.com) Publications ▪ Shanghai Municipal Statistic Bureau (Shanghai Statistical Yearbook) ▪ Economist Corporate Network (Regional Strategic Quarterly Forecast & Asia Pacific Executive Brief) – *China statistics* ▪ UBS Warburg (Asian Economic Indicators) – *China statistics* ▪ Ernst & Young (Non-Performing Loan Report: Asia 2002) Other Information Providers (Subscription basis) ▪ Thomson ONE Analytics (contains analyst reports on Shanghai economy) ▪ Factiva (contains information from newspaper, magazines and reports)
Politics	Websites ▪ Shanghai Municipal Government (www.sh.gov.cn) Publications ▪ Economist Corporate Network (Regional Strategic Quarterly Updates, Asia-Pacific Economic Brief & Country Monitor) – *China information*
Demographic Indicators	Websites ▪ Shanghai Municipal Statistic Bureau (www.stats-sh.gov.cn) Publications ▪ Shanghai Municipal Statistic Bureau (Yearbook of Statistics & Shanghai Fifth Population Census 2000) ▪ Asian Demographics (Weekly Demographic Insights) ▪ Economist Corporate Network (Regional Strategic Quarterly Forecast) – *China information*
Real Estate Market Information	Websites ▪ Shanghai Real Estate Exchange Centre (www.shfdz.gov.cn) ▪ SouFun (www.soufun.com) ▪ CB Richard Ellis (www.cbre.com.cn) ▪ Colliers International (www.colliers.com/china) ▪ Cushman & Wakefield (www.cushwakeasia.com) ▪ DTZ Debenham Tie Leung (www.dtzresearch.com) ▪ Jones Lang LaSalle (www.joneslanglasalle.com.cn) ▪ Jones Lang LaSalle Hotels (www.joneslanglasallehotels.com) Publications ▪ Shanghai Municipal Housing, Land and Resources Administration Bureau & Shanghai Municipal Statistical Bureau (Shanghai Real Estate Market) ▪ Shanghai Real Estate Exchange Centre (Shanghai Real Estate, Shanghai Land, Shanghai Housing, Shanghai Property Market & Shanghai Quarterly Property Market Analysis) ▪ SouFun (Shanghai Quarterly Property Market Report) ▪ Jones Lang LaSalle (China Property Market Monitor, Greater China Property Index, Asia Pacific Property Digest & Asia Pacific Property Investment Guide) ▪ CB Richard Ellis (PRC Market Index Brief) ▪ DTZ Debenham Tie Leung (Property Times & Property Market Review) ▪ Cushman & Wakefield (Shanghai Office Snapshot) ▪ Bank of China (Ad-hoc report on Shanghai residential market) Other Information Providers (Subscription basis) ▪ Jones Lang LaSalle (Real Estate Intelligence Services) ▪ Thomson ONE Analytics (contains analysts' reports on property sector) ▪ Factiva

Attachment F. The Land and Real Estate Assessment (LARA) Basic Module Factor List

The Economic, Social, and Political Context:
This section briefly identifies the political and socio-economic factors that are considered exogenous to the scope ofreforming real estate markets but significantly affect their overall performance. Issues identified in this section would be anticipated to both directly and indirectly affect the performance of real property markets. However, initiation of reforms of these factors is expected to be driven by much broader socio-economic concerns and mainly by players outside the real estate arena, although real estate market proponents can be expected to collaborate, support and influence such reforms.

Economic Indicators:
- Growth and Income:
- GNP growth rate last 5 years (percent)
- GNP per capita ($US)
- Median household income ($US)
- GNP per capita in PPP ($US)
- Stability:
- Annual rate of inflation (percent)
- Currency over (under) valuation (percent)
- Interest rates (percent)
- Public debt to GDP
- Budget deficit to GDP
- Size of the banking sector to GDP
- Financial depth (M2/GDP)
- Distribution:
- Income share of lowest quintile (percent)
- Income share of the highest quintile (percent)
- Government welfare expenditure to total government expenditure (percent)

Political Indicators:
- Decentralization index
- Corruption perceptions index
- Freedom index

Population Indicators:
- Household size
- Level of urbanization
- Rate of urban growth
- Residential mobility
- Literacy rate (male, female)

Geographic Indicators:
- Area
- Proportion arable, urban, protected
- Topographical constraints

Attachment G. FIABCI Business Environment Factors Database

Average rents, recently built properties, prime downtown locations.
Average rents, recently built properties, prime suburban locations.
Average rents,properties more than ten years old, prime downtown locations.
Average rents,properties more than ten years old, prime suburban locations.
Brokers' fees : how much are they and who pays?
Fees for property management: are they regulated ?
Fees of the builder-developer: are they regulated?
Fees of the real estate agent: are they regulated?
Fees of the valuer / appraiser: are they regulated?
Legal regulation of the practice of builder-developer?
Legal regulation of the practice of property management?
Legal regulation of the practice of real estate agent?
Legal regulation of the practice of valuation / appraisal?
Property managers' fees : how much are they and who pays?
Purchase of real estate by a foreigner: rights of a non-resident
Real estate investment by a foreigner: repatriation of profits.
Real estate purchase by a foreigner: declaration of origin of funds
Recent market trends: construction
Recent market trends: mortgage rates
Recent market trends: property values
Recent market trends: rental and sales
Rental: are rents regulated by law?
Rental: must the tenant pay a guarantee or a deposit upon signing the lease?
Rental: what is the usual duration of a lease?
Rentals: is the duration of the lease regulated by law?
Rentals: must the lessor pay taxes on his rental income?
Rentals: must the tenant pay any taxes during tenancy?
Sale: must the sale be registered with the public registry?
Sale: is a promise of sale mandatory?
Sale: Must the act of sale be signed before a notary?
Sale: must the buyer pay a deposit when signing a purchase agreement?
Sale: Must the value of a property be set by a valuer / appraiser before being sold?
The purchase of a real estate property by a foreigner: rights of a resident foreigner
Transfer costs for a real estate transaction of 100.000 Euros between two companies.
Transfer costs for a real estate transaction of 300.000 Euros between two companies.
Valuers'/Appraisers' Fees : how much are they and who pays?

Attachment H. Guiding Question for Interviews

Massachusetts Institute of Technology
Sloan School of Management

March 2004

* * * *

Statement to person being interviewed:
This interview is about the relationship between international capital and real estate markets in developing countries. The premise is that:

A) Increasing the accessibility of real estate markets to foreign capital is economically beneficial to developing nations and has the potential to promote growth and stability.
B) If the inherent risks can be managed, these markets present opportunities for extraordinary returns as the real estate markets in the developing nations mature.

This interview seeks your insight to the topic in order to combine it with the views of other practitioners, economists, and professionals in the area of international development. The result will be a present-day review of the potentials of developing-nation real estate markets, as well as a perspective on expectations for the medium term future.

The questions are only a guide to the conversation. Some of the questions will be specific to the profession of others and are included so that you can see the overall pattern of the questioning.

Questions:

1. What is the first thing that comes to mind on the topic of international capital investment in developing nation real estate markets?

2. Does international capital augment or replace a functioning local mortgage industry?

3. Do you see a link between a functioning mortgage industry and the ability to finance large capital projects in local currency?

4. Are external efforts to assist in improving the primary mortgage and securitized mortgage markets within countries effective (such as those supported by the World Bank/ International Finance Corporation)? Why or why not?

5. If a country with an inadequate land titling system wanted to improve their situation quickly, to whom would they turn internationally to assist? Are there notable examples of this?

6. Do you see international real estate as solely the domain of the institutional investor?

7. Real estate is generally owned for income purposes and /or for capital appreciation purposes.

    a. How would you describe the practicality of owning income property in developing nations? Do you expect this to change in any significant way in the near to medium term? How?
    b. In your opinion, is international real estate a viable investment for capital appreciation?

8. Do you think there is an appropriate understanding internationally of the importance of well-functioning real estate markets to the growth and stability of developing nations and to the welfare of its citizens?

9. (International Finance):
    a. Are you aware of securities backed by real property in developing nations trading on any exchanges?
    b. If so, do the securities focus on single countries?
    c. Do you see these types of securities as useful hedging tools?
    d. As hedging tools, do you think that such securities would develop derivatives, possibly for the benefit of foreign governments?

10. (For investors or fund managers).
    a. Please describe your fund characteristics; ie size, currency, countries invested, nature of investments (commercial, residential, securities, etc), source of equity (institutional, individuals, etc).
    b. For your customers, what does your fund represent? Ie growth, income, hedging or diversification, etc. In short, what attracts investors to your fund?
    c. Can you estimate the number and total capital of funds such as yours?
    d. What would be required to increase the attractiveness (ie the amount of capital invested in your fund) by a factor of ten (10)?

11. What do you see as important tax-related considerations for both the country in which the investment occurs and the tax-nationality of the investor?

12. Understanding a market. What information or indicators do you use to understand the potential for returns in a particular market? How would you rate the following indicators in terms of importance for understanding the potential of a country:

    a. Annual change in GDP
    b. Changes in short term interest rates

c. Changes in long term interest rate
d. Dollar exchange rate
e. Population growth projection
f. Rural/ urban migration pattern
g. Upcoming elections
h. Changes in the legal system
i. Ability for foreigners to hold 100% of real estate assets
j. Ability to get title insurance
k. Strong growth in real estate prices
l. 'burst bubble' falling real estate prices

Any additional comments or observation you would have to make would be greatly appreciated.

Thank you very much for your time and assistance.

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