Wharton UNIVERSITY of PENNSYLVANIA Samuel Zell & Robert Lurie REAL ESTATE CENTER

2012 Fall Members' Meeting Summary

The Fall 2012 Zell/Lurie Members' Meeting was held in Jon M. Huntsman Hall on the campus of the University of Pennsylvania with nearly 400 members, guests and students in attendance.

Research Sponsors, Executive Committee members and special guests enjoyed panoramic views of Philadelphia from the 8th Floor of Huntsman Hall at a special Thursday night pre-meeting dinner. The Max. M Farash Real Estate Roundtable speaker was Wharton finance professor Jeremy Siegel who shared his views on today's latest financial news and what is ahead for Wall Street, investors and business. At the evening's close, the guests were delighted to receive a copy of **The Signal and the Noise: Why So Many Predictions Fail-but Some Don't** by the Fall Meeting's **Farash Distinguished Lecturer, Nate Silver**.

Members who enrolled in our Career Mentor Program joined their mentees for breakfast. The program provides a unique opportunity for students to acquire insights from their Mentor's professional experience. The Zell/Lurie Real Estate Center expresses its sincere thanks to this year's record number of members who have volunteered their time for a most worthwhile and much-appreciated program.

Robert C. Lieber, Chairman of the Zell/Lurie Real Estate Center, opened the Friday meeting, and Joseph Gyourko, Director of the Center, gave a report on the State of the Center. The Center is strong, with 153 Sustaining Members and 63 Research Sponsors, and the faculty research agenda for the current academic year includes studies of the housing markets; growing interest in real estate market fundamentals and the economy; developments in real estate debt and equity markets; and real estate and public policy. Gyourko encouraged everyone to visit the **Zell/Lurie website** and explained the *Wharton Real Estate Review*, found online, will be rolling out a broader communications strategy in an effort to engage members in the Center's research.

Gyourko then presented Witold Rybczynski, founding editor of the *Wharton Real Estate Review* (with Peter Linneman), with a Lifetime Achievement Award for his contribution and commitment to the field of real estate and real estate activities. He also memorialized Myles H. Tanenbaum, one of the founders of the Center and a trustee who died in August, as “one of the great forces behind this program.”

The first panel, Owner-Occupied Housing: Is the Recovery Real?, was moderated by Asuka Nakahara (Associate Director of Center). Panelists were Franklin Codel, Executive Vice President and Head of Mortgage Production, Wells Fargo Home Mortgage; Fernando Ferreira, Associate Professor of Real Estate, The Wharton School; Richard Saltzman, President, Colony Capital; and Douglas C. Yearley, Jr., Chief Executive Officer and Director, Toll Brothers.

Nakahara began the presentation by reading headlines that presented varying viewpoints about the recovery of the housing market. Each panelist agreed that the housing market is recovering, to varying degrees, if not quite completely out of the woods yet. From Toll Brothers’ perspective, Douglas Yearley said the company has announced its best numbers in five years. Richard Saltzman, whose business involves buying single-family homes and renting them, believes the market has stabilized and is gradually coming off the bottom. Fernando Ferreira was the lone hold-out, saying there is a lack of demand for the “product” of home ownership, because of the lack of jobs. “With the lack of real income, it’s hard to buy this expensive product that requires lots of financing and confidence in the housing market,” he said. “We don’t have any of that right now, on average.” Franklin Codel stressed that real estate is such a local business that it is difficult to make a national prediction. Trends indicate there are many markets that have clearly hit bottom and in certain markets “more normal activity” is going on. There are fewer distressed properties and affordability is at an all-time high. “But we see trepidation because of confidence in education,” he said. “Lots of elements are in place though [for recovery], including demographic elements.”

The panelists agreed job growth is key to growth in the housing market, but even though unemployment has gone down to a current rate of 7.8 percent, employment is spotty. Yearley agreed that the recovery is happening gradually, and also agreed with Codel’s point that real estate is a local business: rolling up data that includes certain areas such as Florida, Arizona, and Las Vegas doesn’t give an accurate picture of what’s going on in all areas. “We believe the American dream is still to get out into the suburbs and have swing sets in backyards,” he said.

The second panel, ***Implications of Economic Change and Uncertainty for Real Estate Investing: The View from the CIO’s Office***, was moderated by Joe Gyourko, with panelists David C. Cooper, CIO, Indiana Public Retirement System; Todd Petzel, CIO, Offit Capital, a New York City investment firm with 75 clients and $6.5 billion in assets; and Charles F. Lowrey Executive Vice President and COO, U.S. Businesses, of Prudential Financial

Gyourko asked the panelists what they feel has changed since the financial crisis and their thoughts on policy interventions, in terms of broad investing. Todd Petzel said it's a constant struggle to balance the risk and return. "Asset allocation is difficult, especially in a category like real estate, which is an umbrella that covers myriad investments from low return core to more opportunistic high return." Cooper claimed he is trying to diversify risk, and the financial crisis caused him to look at asset allocation based on risk factors rather than dollar weights. Charles Lowrey said he tries to match cash flows with liabilities, and mentioned the differences between public pension plans, which see chronic underfunding, and private plans, which are selling equities and going into alternatives, including real estate.

The panelists agreed that people have become more realistic in planning to include alternative programs and understand the importance of balancing those that provide for liquidity with minimum risk, as well as those that simply want to reduce volatility. The panelists also allowed that changing times require changing strategies, and they are always evaluating, and willing to try new things across different asset classes. "We evaluate risk versus return and ask lots of questions," said Petzel. Lowrey agreed and added, "You always have to look at the underlying risk, but you can have dialogs now that you couldn't have five years ago." And even so, they all agreed that circumstances beyond anyone's control can, and do, dictate unexpected results.

The conference continued with the Farash Distinguished Lecture, given by Nate Silver, political polling analyst for the New York Times and FiveThirtyEight.com and bestselling author of The Signal and the Noise: Why So Many Predictions Fail—But Some Don't. His topic was "Predicting the November Elections." Prior to his address, Research Sponsors had been invited to a private book-signing event with the author.

Silver noted that in politics, people don't seem as interested in making accurate predictions. He claimed that in the 2008 presidential election polling results by five of the biggest experts showed they were right only about 50 percent of the time. He claimed that humans aren't trained to "find the signal in all the noise" and with 90 percent of the information in the world having been created in the past two years, there is a lot of noise obscuring the signals. "People often overweight the simplicity of a problem and overweight how much they can learn from limited bits of data," said Silver. “But often the data is just too limited.” This limitation is why Silver advocates looking for consensus in the data, updating it frequently, quantifying and measuring uncertainty, and combining theory and empiricism. He said this approach will help find the underlying structures to make predictions.

The final panel of the day was ***Real Estate Capital Flows and Challenges***, moderated by Peter Linneman, Sussman Professor Emeritus of Real Estate at The Wharton School. Panelists were Jack Chandler, Managing Director, Global Head of Real Estate, BlackRock; Joanne Douvas, Managing Director and Founding Principal, Clerestory Capital Partners; and D. Michael Van Konynenburg, President, Eastdil Secured

Linneman said to the panelists, “You all look at the world of real estate from a number of different angles, and we’d like to hear what’s happening now.” Van Konynenburg commented on what was learned in the last crisis, that diversification is good in CMBS if you hold senior position. “Any one loan can’t hurt you if you’re at the top. People know they’re lending into a recovering cycle, so the chance of getting crushed is less.”

Discussion then centered on private equity and what has happened to demand by investors. “Demand is off for a lot of reasons,” said Douvas. “As we heard this morning, pension plans, reallocating to core, capital that’s been raised is a scant amount relative to the peak of the market. Who can and can’t raise money? We’re seeing a natural evolution. Those who did stupid things are out of the market now.” Chandler agreed, calling the process “Darwinian.”

“I like the strategy of buying stuck construction projects out of bankruptcy, with deep discounts to replacement costs,” said Douvas. “Private REITs are still active,” added Van Konynenburg. “We’re seeing capital from Korea, Hong Kong, China, Europe, and the Middle East is hit or miss. Most has been the U.S. and Canada.”

Linneman closed the panel by asking each member to comment on their biggest worry when they look at the markets and see what others are doing. “What makes us nervous is high yield debt and erosion of credit standards, and CMBS market trying to sneak back,” answered Chandler. “Anytime anyone tries to convince themselves it really is okay this time, it’s scary. China is a little scary also, because of the lack of data and predictability,” said Douvas. Van Konynenburg said the Fed has been helpful, “but in reality, it’s burning a hole in the U.S. pension system. What does that do to credit discipline, for example? It’s been beneficial so far, but aggressiveness will make it easy for people to go over the cliff as far as discipline.”

Robert Lieber closed the conference and reminded members that the Spring Members' Meeting is scheduled for **Tuesday and Wednesday, April 23-24, 2013** at The Rittenhouse Hotel in Philadelphia.

Members are invited to watch a video of the panel presentations and the speaker and to view photographs from the meeting. To do so, please contact **Ron Smith**.

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