



2012 Spring Members' Meeting Summary

The Spring 2012 Zell/Lurie Member's Meeting was held on Tuesday evening and Wednesday, April 24-25 at the Rittenhouse Hotel in Philadelphia. David Bonderman, founding partner and principal of TPG Capital, was the guest speaker and Mr. Bonderman met with Center Research Sponsors before dinner at a private colloquium. An excellent meal was followed by the announcement of this year's Center Awards and Scholarships. David Bonderman then delivered a most enlightening and entertaining talk on "A Brief State of the World from a Private Equity Perspective."

Robert Lieber, chairman of the Zell/Lurie Real Estate Center, opened Wednesday's meeting by noting that this conference boasted the largest registration in the Center's 26 years, and was a great mix of members of the real estate industry and students.

The Center's director, Joseph Gyourko, introduced the first panel, "Outlook for the U.S. and Global Economies and Their Implications for the Property Markets," moderated by Asuka Nakahara, associate director of the Center. Panelists were Wharton economists Karen K. Lewis, Joseph and Ida Sondheimer Professor in International Economics and Finance, Peter Linneman, Sussman Professor Emeritus of Real Estate and Gyourko.

Nakahara set the stage by stating that the economy seems to be improving slowly, but with low interest rates and high unemployment, it will be a long, slow road to recovery, and asked the panelists to comment. The consensus was that the economy is so abnormal that it is impossible to forecast anything based on what happens when things are normal.

The panelists discussed their "red flags" — increasing oil prices; the financial risks in Europe; a residential real estate bubble in China, where house and land transactions are dropping across the country; a potential trend toward increased layoffs; and possible Democratic control in Washington after November's elections. "And the positives would be the opposite of the negatives," said Lewis. "China will continue to

grow strongly, Europe will be okay, and we'll continue to see positive employment numbers in the U.S." Gyourko added that in the new administration, we could agree to long-term fiscal reform that closes loopholes and either lower or not raise interest rates.

The second panel, "Retail and the Consumer: What's Back and What's Not?" moderated by Joe Gyourko welcomed Sandeep Mathrani, CEO of *General Growth Properties*; Barbara E. Kahn, Baker Professor of Marketing at Wharton; Chaim Katzman, Chairman of *Gazit Group USA, Inc.*; and Cynthia R. Cohen, President of *Strategic Mindshare*.

Gyourko asked the panelists for their updates. Mathrani said his consumer demographic is educated and holds jobs with security, and noted that any region with an industry that involves energy production is going strong. Katzman, whose stores provide "daily necessary items to practically everyone," says they've been seeing a gradual rebound with occupancy levels going up. Pricing power has returned to the landlord, although rental rates didn't necessarily follow across asset classes, for example at strip centers. Kahn agreed that she sees differences in segments. "The luxury market is stronger than middle or lower markets, and we're seeing higher consumer confidence and excitement." More square footage doesn't make a store better, added Cohen. "Be the dominant site in a marketplace and on the right street corner and that's better."

Discussing the challenge to the dominance and viability of bricks and mortar stores from Internet shopping, Mathrani commented that online retailers have an advantage because they don't have to charge tax. "The Fairness Act is all about equalizing bricks and mortar retailers with online retailers, which will slow down the cannibalization," said Mathrani. Kahn noted that the purchase process doesn't start and end with the transaction. "Sometimes you research online and purchase in the store. Sometimes it's the opposite. It's not cannibalization, because it's mixed together." Retailers need to figure out omni-channel marketing," said Gyourko, because physical retail is not going away. An interesting concept for the retail stores' physical spaces was the return to simpler, old-fashioned marketing combined with cutting-edge technology.

In spite of Europe's economic woes, Katzman said, the dynamics of malls are similar in Europe, although they are smaller. Creating a story around a mall, imbuing it with various forms of culture, providing art exhibits, music, and workshops, creates success. Mathrani commented that a decade ago, we thought malls would be

extinct, but they've reinvented themselves, across the board, to cater to baby boomers, which is very encouraging.”

The conference continued with keynote speaker the Honorable Jon M. Huntsman, Jr., former Governor of Utah and Ambassador to China on “The Impact of China’s Domestic Policies and the United States Political Scene.”

Huntsman began his talk by referencing his recent bid to become the Republican presidential candidate. He said that as he traveled around the country, people were complaining about what is wrong with America. At a roundtable discussion he asked who would be willing to run for public office, and no one raised their hand. “We are only as good as those we put forward,” he said. “We are a nation in need of leadership.”

One of the biggest challenges the country faces is its debt problem, Huntsman said. He predicted the top three stories of the 21st century would be: the rise of Islam and what it means to the world; advances in biotechnology; and the rise of China. China has become a major player on the world stage sooner than they thought they would be because of the collapse of the rest of the world. Is China ready? Not today, but it will be. They’re learning what a great responsibility that is.” He noted that China’s challenges are enormous, with more people leaving the workforce than are entering; their movement from an export model to a consumer-driven model; and the increase in talk of human rights and reforms. But he sees promising aspects of change and was especially impressed with the emerging entrepreneurs there who spoke to quality and to meeting internationally recognized standards.

The third panel featured Jonathan Gray, Senior Managing Director and Global Head of Real Estate, *The Blackstone Group*, and Jonathan Pollack, Managing Director and Global Head of Commercial Real Estate, *Deutsche Bank*. They discussed “The State of Real Estate Capital Markets: What is Getting Done? How and Why?” Moderator was Roy March, CEO of *Estdil Secured* and Vice Chair, Zell/Lurie Real Estate Center.

March reviewed the day’s earlier panels: Europe continues to create volatility. At home, tepid growth and an aggressive Fed policy are keeping interest rates low and the commercial real estate market has been resilient. Prices are nearing ’06 levels in core markets, and debt markets are returning with fewer players. What is the availability of capital and fundraising today?”

Gray responded that the equity side of the story is like a “tale of two cities.” With lots of capital in coastal markets, long-term lease office buildings, productive

shopping centers, and apartments look attractive, with low interest rates. Many U.S. pension funds, insurance companies, and REITS are focused on core markets, and as a result, cap rates have moved lower. However, in opportunistic areas, there are overleveraged capital stacks, vacant office buildings, strip centers and industrial buildings, in the middle of the country, where people aren't that excited about buying those assets. "It's similar in commercial lending," said Pollack, adding that he spends most of his time in "opportunistic space."

March asked both men what surprised them the most in 2011 and what they expect to be the big surprise of the current year. "The benign market reaction to what is actually happening in Europe was last year's biggest surprise," said Pollack. "These are big macroeconomic problems, and the entire world is dealing with an intractable overleveraged problem." For 2012, he predicts that the beneficial interest rate environment in the United States will continue to fuel good overall business activity. Gray listed several events from 2011, beginning with the crises in Japan and Egypt, and then Europe's "blow-up." "We have to be sure we have capital structures to weather a storm," he said. He predicted "single-family housing will help the economy; the combination of low interest rates, the recovering U.S. economy, and no one building will all help the economy in 2012."

The day's final event, a conversation between Peter Linneman and Sam Zell, chairman of Equity Group Investments, began with a discussion about REITs and how they have evolved over the past 20 years, and then moved on to international investment opportunities and politics in the United States.

Linneman asked Zell what he thinks of investing outside of the United States. "If you're chasing growth, you have to leave the U.S.," Zell replied. He reminded Linneman that whenever an investor is considering an investment, the first question to ask is: "Where is the demand and where is your capital worth the most?" Linneman mentioned that Zell had always been "bearish on Europe because you didn't see growth." At home, Zell emphasized that the biggest problems, in his opinion, are overleveraging and over-regulation. "Normal evolution from recession to growth is impeded by a government that believes it can do everything better than the private sector."

The men closed their conversation with a brief discussion about the deficit. "What should be done?" asked Linneman. "The first step is recognition," Zell replied. "No country in the world, not even the United States, can borrow 40 percent of what

they're spending on an annual basis. The Fed has been buying 40 to 50 percent of all debt the U.S. has sold. Five years ago, that number was zero."

In conclusion, Zell said he was most surprised today that people don't seem to understand the ramifications of demographics ... that the age of marriage has gone from 22 to 29 in the last 25 years; that 40 percent of Americans live alone; and so on. "It's good for the apartment business, but not for others. When all is said and done, those kinds of issues are relevant in terms of how you invest capital, how you take risk, and how you go forward."

The Fall Member's Meeting will be held on Friday, October 5, 2012 in Huntsman Hall on the Penn campus. If you are a member of the Center and would like access to an audio recording of the Spring Meeting or to view photos from the meeting, please contact [Ron Smith](#). For more about membership, contact [Janice Leberman](#) Attendees: Please complete the [feedback form](#).

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