
Executive Profile

Leanne Lachman

Executive in Residence

DANIEL SPEAR MBA '09

M. Leanne Lachman is an executive in residence at Columbia Business School, where she advises MBA students and collaborates with the Paul Milstein Center for Real Estate. Her book Global Demographics 2008: Shaping Real Estate's Future (Urban Land Institute) describes demographic characteristics and trends throughout the world and their implications for real estate for the next 20 years. She presented the study's findings at the 2008 ULI fall meeting in Miami, Fla. In this interview, which was conducted in November of 2008, Ms. Lachman discusses global real estate trends and where investors can look for promising opportunities.

How did you initially become interested in real estate?

I was working toward a PhD in English literature while also working as an editor for a real estate market analysis and appraisal firm. I learned about the real estate business from editing the company's reports. There really weren't many good jobs for English PhDs at the time, so halfway through my dissertation I quit and went to work full-time for the real estate market analysis firm. Ultimately, at the age of 36, I became president of the company and ran it for eight years. It was the largest market analysis and appraisal firm in the country.

What were some of the most interesting findings and trends you identified in your research for *Global Demographics 2008*?

Right now it's a wonderful topic because we look ahead to 2030 and past the current financial crisis toward long-term trends. The main conclusion of the research is that there will be huge real estate demand in most parts of the world. The growth in emerging markets is really

overwhelming and comes from several sources, but the strongest trend is urbanization. For every person that moves from a rural area to an urban area, you have new demand for housing. A lot of it starts out in slums; however, there is more and more demand for workforce housing that the private sector can provide. The growth in places like India, Mexico, Brazil, Turkey and South Africa is really incredible.

The single biggest demographic change throughout the world in this century is the aging of the population. People are living far longer than they did in the last century. Fertility rates are dropping, so we will end up with a much higher proportion of the total population that is 65 or older. It is not clear how countries are going to accommodate the needs of that older population. The United States, Canada and Japan have long experience in providing various forms of housing for the elderly. Europe has some assisted-living and nursing-home facilities, but not in the numbers that are needed moving forward; so there is an opportunity for American developers and operators to export the skills we have acquired in senior housing. That is particularly important because we won't see a lot of demand growth in the U.S. until after 2026, when the baby boomers start to turn 80.

What are some of the other investment implications of your research? If someone gave you a million dollars to invest globally in real estate, where would you invest?

First, the United States and Canada are going to have very steady growth. For people who want to invest in these markets, it should be a favorable environment when we come out of the current recession.

Emerging markets are very exciting. They carry higher risk, so you have to generate higher returns. Retail targeting middle-class consumers is very appealing. Hypermarkets like Wal-Mart or Carrefour or air-conditioned regional malls—as we are seeing in Mexico—are good examples of retail for moderate-income people. The larger, more advanced emerging markets are underretailed compared to the developed world, which is the opposite.

There is tremendous need for limited-service and budget hotels in basically every emerging market, as well as in Europe. The trick is that you need to be able to purchase the land at a low enough price to support this type of project. The demand is driven by internal growth in both business and personal travel. The potential increase in domestic travel within emerging markets is overwhelming, particularly with so many new low-cost airlines—for example, India has 8 to 10 already.

Where would you avoid investing?

The most troublesome region is Europe because the population is declining and the labor force is shrinking. Demand declines are a concern if you are thinking about investing in real estate. So, I would not invest in most of Europe, with the exception of budget hotels and facilities for an aging population.

I would also steer clear of Russia, which is losing a million people a year between now and 2050. I would rather invest with the demographics than against them.

How should U.S.-based real estate investors think about mitigating the political and legal risks associated with investing in developing countries?

You want to have reliable local partners—trustworthy people with integrity, which is not always easy in countries where bribery is pervasive.

I only go to countries that offer title insurance or an equivalent. China is one place I would not invest directly in real estate because you can't own the land; you lease from the government, and I would never be comfortable that my lease would be renewed. The typical lease term for commercial projects is 30 years, which is not long. I would invest in Chinese businesses rather than direct real estate.

In your book, you identified the availability of mortgage credit and the development of securitization as important for the expansion of real estate development in emerging markets. What lessons can these countries learn from the excesses that took place in the United States?

Active and strong mortgage markets are still being created in one emerging market after another. Mexico is an excellent example, and they were fortunate because they have almost no securitization. There is nothing wrong with securitization, and in fact, it is a very appropriate financial device. What went wrong was the multiple layers of resecuritization. That's the big lesson. Everyone is going to be skittish about doing securitizations for a while.

How is the current real estate down cycle in the United States different or the same compared to past cyclical downturns?

In the United States, this really isn't a real estate-driven down cycle. Overleveraging and structured finance were key drivers this time. It just so happened that the first set of assets in structured finance that got into trouble were subprime home mortgages. However, the same problems exist in automobile loans, in credit card debt and in lots of other assets that were securitized and then resecuritized. This time around, commercial real estate is really a victim rather than a cause. In every other major economic cycle that real estate practitioners can remember, real estate was overbuilt when we entered the recession. With the exception of overbuilt condos in some locations, commercial real estate supply and demand were in balance.

To what extent do you think the global economic crisis will limit new investment in emerging markets?

In the near term, everyone is in pause mode. Short term, opportunistic money is going to go to debt or structured-finance workouts. Having said that, a lot of companies are already operating in emerging countries, and they will be active once again when their markets start to recover, which could happen ahead of the U.S. To the extent that those firms already have institutional-investor connections, they can tap into money. Nonetheless, everything will be slower for the next several years.