

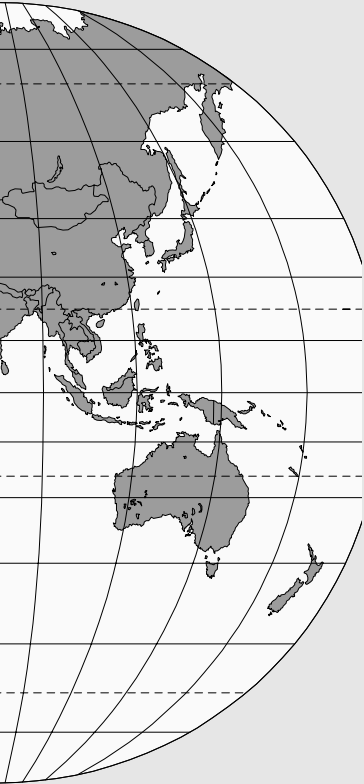


Global Advisory Board of the Institute for International Business presents

Global Executive Forum Report

SUMMARY WINTER 2005-06

Global Advisory Board
of the
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International Business
presents
Issue Number Seventeen



Global Executive Forum

Winter 2005-2006
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Three dynamic world regions attracting capital

Over the last decade rapid economic and political developments in three world regions have reshaped the global economy and drawn the attention and the investment capital of the US, the EU and Japan. China, India and Central Europe – the most dynamic regions in the world in the eyes of many observers – are building manufacturing and service platforms that will be the most competitive globally, and have sustained progress in government and market based reforms that will attract increasing shares of capital.

Companies in the US, EU and Japan are becoming aware that their own business strategies need to include a China option, an India option or a Central Europe option for both manufacturing and services. In addition, selling into these markets has great promise. The growth in these three developing regions attracts capital to the companies themselves as well as capital for building infrastructure in each region.

As one example, on our first visit to Shanghai in 1989 the tallest building was 26 stories. In January 2006 our delegation of business professors from US universities was told that today Shanghai has more than 2000 buildings more than 40 stories. A visit to Chengdu in the west of China provided evidence of huge infrastructure development in China's interior as well. For China, much of the most visible dynamism is associated with real estate.

Over the last 15 years China has moved from drab, subsistence level public housing to a new policy encouraging private ownership of housing (at least ownership in terms of long term renewable leases). This shift in conjunction with rapid economic development has resulted in huge demand for private housing.

For our Winter 2005-06 Global Forum we addressed global real estate in several sessions, heard from a former US Ambassador on the rise of India, learned from a noted law professor about how our tradi-

tional notions of personal privacy are being invaded by digital technology, and were brought up to date on economic issues by a panel of experts from our Global Advisory Board.

David Stanford of RealFoundations briefed the Forum on the rise of real estate as a global asset class. He pointed to the Asia Pacific Region as one of great promise over the next 20-40 years with a market size of \$3.1 trillion.

Prof. **Glenn Mueller** addressed real estate investment trusts, both domestically and globally, as key investment vehicles adding liquidity to this asset class.

Raj Bhandari and **Tim Morris** offered two perspectives on globalization of real estate capital flows. Bhandari pointed out that in 2005 new legislation in India relaxed restrictions on foreign investments in real estate and stimulated demand.

Morris, a pioneer in global real estate investing, presented his insights on a number of global markets and the significant increase in the free flow of capital across borders to finance real estate deals.

Kent Richey's expertise is in advising on complex real estate transactions globally and he analyzed the components of successful real estate deals.

As I write this, we are about to embark on a journey to India for the India Global Forum. We will visit companies, CEOs and entrepreneurs who are making India a world class business services hub in IT, business process outsourcing, high tech and consulting. In a week of visits in Bangalore and New Delhi we expect to see firsthand how and why India has made sustained progress since 1990. Our next Global Forum Report will focus on these experiences.

Donald L. Stevens, PHD

Managing Director
Institute for International Business
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Investors drawn to emerging markets in China, India and Central Europe.....1
Is it the US Supreme Court or citizens who should decide where to draw the line between security issues and privacy rights?.....2
It may not be a once-in-a-lifetime love affair but investors are finding a lot to like about real estate as an asset class.....3
High returns and consistent performance boost REITs' popularity here and abroad.....4-5
India's real estate market is poised for takeoff and other markets around the globe are also looking good.....5-7
A growth market is important when deciding where to invest but many other factors also come into play.....8
India was struggling to score as a global contender when along came Y2K and changed its fortunes forever.....9
From US interest rates to the direction of the European Union, 2006 is shaping up to be an interesting year.....10-11

*Global Executive Forums are held twice annually, with each agenda focused on a global business theme as well as a geopolitical theme. Following each meeting, the sessions are summarized in a Global Executive Forum Report and disseminated to colleges of business across the nation. **Information:** Phone 303-556-4738; Fax 303-556-6276; Web <http://www.cudenver.edu/international/CIBER/>*

Privacy perils in the digital age

Who should draw the line between national security and citizen rights?

JEFFREY ROSEN is a professor of law at George Washington University and the legal affairs editor of *The New Republic*. His first book was *The Unwanted Gaze: The Destruction of Privacy in America*, which *The New York Times* called “the definitive text on privacy perils in the digital age.” His second book *The Naked Crowd: Reclaiming Security and Freedom in an Anxious Age*, was called “the most disturbing book of the year” by the *London Guardian*. Rosen is a graduate of Harvard College, *summa cum laude*; Oxford University, where he was a Marshall Scholar; and Yale Law School. His essays and commentaries have appeared in the *New York Times Magazine*, and *Atlantic Monthly* among others. The *Chicago Tribune* named him one of the ten best magazine journalists in America.

With the growth of intrusive technologies, more and more privacy issues will likely come before the Supreme Court in the next several decades, said Jeffrey Rosen in his address to the Global Executive Forum. “The Court’s challenge will be to strike a balance between the constitutional rights of citizens and pressing security needs of the nation,” he said.

“But should the Supreme Court act unilaterally in making decisions that will profoundly affect the public in ways that no one could have imagined when the Constitution was drawn?”

Security and privacy were not on opposite sides of the political spectrum when the framers of the Constitution handwrote the document in the glow of oil lamps. In today’s high-tech world, security and privacy issues look vastly different and the question is: How do you have one without impinging on the other?

Thus far, the public seems willing to trade off some privacy for increased security. Rosen described a remarkable new technology that London, in the wake of the recent underground bombings, is preparing to implement on a broad scale. He calls this a “naked machine” because it digitally undresses the person within its scope.

“It’s very effective in revealing what might be hidden under the clothes but the downside is that it shows us stark naked.” There is an alternative to the naked machine,

a “blog” machine that is equally effective but can protect the individual’s privacy while also protecting security. “It really is possible to have both at the same time.”

However, there has been no public outcry for the blog machine in preference to the naked machine even though the blog technology is readily available and not much more costly. In a test run of the naked machine, people entering the underground had the choice of passing through this fast new technology or submitting to the slightly slower x-ray inspection.

“Lots of people chose the former,” said Rosen. “Many of them expressed the feeling that the new technology was a good way to prove the trustworthiness of themselves and fellow passengers. And if they had to be naked to accomplish this, they didn’t care.”

Said Rosen, “We shouldn’t assume that

“Shoehorning moral and political intuitions into crisp legal arguments is not so easy.”

all of us have the same intuitions about privacy and security.”

A poll in the US about the constitutionality of the Patriot Act bears this out. “According to the poll, 50 percent of the public thinks the Patriot Act strikes the right balance between privacy and security, 20 percent thinks it doesn’t go far enough, and 20 percent thinks it goes too far. The other 10 percent is undecided.”

Will these numbers turn upside down in the future when increasingly intrusive technologies impact citizens’ day-to-day lives?

fMRI (functional Magnetic Resonance Imaging) brain scan technology is already here and has many implications for security purposes.

“The scan, when used as a high-tech lie detector test, can see if you’re telling the truth about where you’ve been, places you’ve visited. In this regard, it’s like a blog machine; it probes for guilty information but doesn’t look more broadly into your mental processes. However, the brain scan could be devised in a way that looks much more like the naked machine.”

Rosen laid out a scenario where brain scans are used to identify parts of the brain that show a propensity to violence. “So imagine a situation in the future where there’s a terrorist attack. People are fearful; citizens are stopped on the street and given brain scans. If their brains fire in a way that suggests they have a propensity to violence, they are detained indefinitely as enemy combatants, likely to commit future crimes.

“Can people be imprisoned for their violent thoughts even if no subsequent crime was committed?” Rosen asked. “No,” said a guest. “The law provides for dealing with people who break the law, not for people who are prone to break the law.” Another guest disagreed. “If you have somebody who is set up to attack you and take away your rights, it’s a function of the government to protect citizens against that threat.”

Rosen said he could imagine both arguments being presented to the Supreme Court in 2025. But he could not predict how the Court would rule because “constitutional doctrine doesn’t clearly answer the

question. Shoehorning moral and political intuitions into crisp legal arguments is not so easy.

“Trying to figure out when and under what circumstances the government can access personal data, with whom the data can be shared and for what crimes people can be prosecuted based on their data makes the mind reel,” said Rosen.

“In theory it is possible to strike a reasonable balance between privacy and security. But who would ensure that the architectures of surveillance and security were designed in ways that protected liberty and privacy at the same time?”

Rosen does not believe this is something the Supreme Court can or should do on its own. “Privacy laws in the United States came about because the Court set forth a broad framework for regulation and Congress responded by filling in the details.

“Ultimately, the final balance between privacy and security should be struck by the Court in collaboration with Congress, the President and the real people who will define the lines: all of us.” ♦

Real estate as a global asset class

What's in your portfolio?

DAVID STANFORD is an executive managing director of RealFoundations which he founded in 2000. Formerly a partner of Ernst & Young's real estate practice in Dallas, he has more than 17 years experience in providing strategic operational and process improvement services to clients in the property and investment management industry. He provides large-scale operational and systems integration services to private and public owners of property portfolios and Fortune 500 corporate occupiers. His clients include the most respected real estate organizations in the world including Bank of America, ING Real Estate, Westfield Group, Hines Interests and Wal-Mart Realty.

In opening the sessions on real estate, David Stanford provided the Global Executive Forum with an overview of real estate investment in the global marketplace, noting that the "high-return characteristics and longevity of this asset class are driving more capital into the market."

Fueled by new capital flows, the real estate marketplace, excluding the residential sector, "is truly becoming global" said Stanford, with many companies planting their flag far from home. As an example, Stanford cited Australia-based Westfield, "probably the biggest real estate company on the globe." Westfield, a client of Stanford's company, operates in Asia Pacific, North American and is now expanding into Europe.

How big is this market and what is the potential for institutional investors?

Estimates on the global market size for high-quality investment retail vary widely, said Stanford. "According to Prudential Real Estate Investors, the rough number is about \$14 trillion of investable real estate, and the lion's share of that today is in

Countries	RE (US \$Bn)	Real Estate Weight (%)	Listed RE (US \$Bn)	Listed RE Weight (%)
1. United States	4,997	34.42	359	7.2
2. Japan	1,966	13.54	83	4.2
3. Germany	1,075	7.40	5	0.5
4. United Kingdom	1,039	7.15	48	4.6
5. France	791	5.45	27	3.5
6. Italy	657	4.53	6	0.9
7. Canada	396	2.72	30	7.5
8. Spain	378	2.60	11	2.9
9. Hong Kong/China	288	1.98	79	27.5
10. South Korea	237	1.63	1	0.4
11. Australia	232	1.60	70	30.2
12. Other countries	2,464	16.98	102	4.1
Global Totals	14,520	100.00	821	5.7

Source: EPRA, RF Research

North America and Europe." However, based on the economic growth in the Asia Pacific region, "there is tremendous opportunity to employ investment strategies to capitalize on the real estate opportunities over the next 10-15 years as the growth of that area of the world continues."

A large portion of investment in this sector is via direct investment in the property although the listed or "securitized" sector is starting to come on strong. "The amount held in public securities is now a little over US \$800 billion globally and growing rapidly," said Stanford.

"The rise of the tax efficient and transparent REIT structure is making a global march and continues to provide a new range of liquid investment structures to in-

stitutional investors."

Stanford added that "despite all the talk about how large the real estate market is, it represents less than 2 percent of the global stock market equity. This, coupled with low allocations of real estate in many fund managers' portfolios, sets the stage for continued growth in the sector especially as societies age and the demand for stable income-producing dividends for pension schemes increase.

"Real estate is a great match for institutional investors," said Stanford. "And we have seen evidence of many pension players increasing their allocations both domestically and globally as the market matures and becomes more transparent and predictable." ♦

Key questions on international investing

Why do it?

- Reflection of the institutional property investment universe
- Competitive/higher risk-adjusted returns exist
- Enhanced absolute returns vs. US opportunities
- Portfolio correlation to public capital markets
- Expect lower core current yields in international markets

Where to do it?

- Start with large liquid economies: Western Europe, Asia (Japan focus)
- Certain opportunities in Mexico

How to do it

- Private commingled funds provide manager expertise and diversification
- Global property shares

When to do it

- In concert with formulation of domestic strategy
- Current opportunities for core through opportunistic returns in most major markets around the world

—David Stanford

Securitization of real estate and global growth

REITs rule in domestic and global real estate markets

GLENN R. MUELLER is a professor, Loveland Commercial Endowed Chair of Real Estate, and the director of the Everitt Real Estate Center at Colorado State University. With 29 years of real estate industry experience, he also provides real estate market cycle research and investment strategy for Legg Mason's real estate securities, Real Estate Investors, Real Estate Pension Fund Advisors, and Real Estate Capital Markets. He has 29 years of real estate industry experience, including 21 years of research in the areas of real estate capital markets and real estate market cycle analysis. Mueller holds a PhD in real estate from Georgia State University, an MBA from Babson College and a BSBA from the University of Denver.

The growing popularity of REITs as a domestic and global investment strategy is due to consistently good returns and tax benefits, said Glenn Mueller in his address to the Global Executive Forum.

Formed by an act of Congress in 1960, REITs – Real Estate Investment Trusts – can be public or private. “Public REITs are traded on major exchanges and are subject to financial reporting and the same securities law that govern stocks and bonds. Private REITs operate under a less restrictive and less transparent set of requirements,” said Mueller.

Public REITs offer investors liquidity, the ability to get in and out of their invest-

ment with ease. Private REITs can be difficult to exit. Usually, new money has to come in before cash is available for a payout.

Public REITs, said Mueller, “are a much better vehicle from a liquidity standpoint and for balancing a portfolio.”

Unless otherwise noted, Mueller's comments focused on public REITs.

REITs are governed by a strict set of

“Real estate is a local market investment ... and you need to understand what that local market is about.”

rules. “They must have a minimum of 75 percent of their income and assets in real estate and distribute 90 percent of dividend income every year.” In return, the IRS relieves them of having to pay corporate taxes on the federal level.

“Most REITs not only pay a quarterly dividend but many of them have a special dividend at the end of the year to make sure they hit their 90 percent of taxable income numbers. Because of this, REITs have been increasing their dividends at a rate almost double that of inflation since 1991,” said Mueller.

Institutional investors can put big money into real estate directly but the small investor also has an opportunity to invest in high quality commercial real estate through REITs, which are essentially a mutual fund of diverse real estate holdings.

“REIT stocks today average anywhere from \$10 to \$60 a share,” said Mueller. “A hundred shares is anywhere from \$1000 to \$6000. What this means is the little guy can get a piece of the action and that has changed the world.”

Unlike a direct investment in a property, “when you buy a REIT, you buy a package deal that includes the real estate, management and capital structure.”

REITs invest in all the different property types and specialize in specific sectors. There are office REITs, residential REITs, industrial REITs, shopping center

REITs, health care REITs, etc.

The size and value of REITs have been steadily growing. “Back in 1991, 100 of the biggest REITs were under \$100 million in market capitalization,” said Mueller. “Today there are more than 60 REITs that boast a minimum of \$1 billion in market capitalization.”

“The composition of return in any investment is made up of the income and the capital appreciation. Over the past 25 years, the income return for REITs has averaged 8.4 percent; the price appreciation has averaged 6.4 percent and the earnings growth has averaged 7.8 percent. There have been a couple of years when the price appreciation was down, but overall REITs have beaten stocks and bonds as an investment over a 25-year time frame.

Mueller asked, “Can you name any in-

Brief history of REITs

Now more than 45 years old, REITs—Real Estate Investment Trusts—“were ignored as an investment vehicle in the 1970s and 1980s because a limited partnership was the favored vehicle for real estate investments as they provided tax shelters,” said Glenn Mueller.

“Up until 1986, REITs were set up as passively managed trusts requiring an outside manager. The Tax Act of 1986 allowed REITs for the first time to be actively managed. Then you could have management inside of the REIT and

managers could own stock in the company and be part of what was going on. I consider that to be the start of the new REIT era in the United States. The Tax Act of 1986 also disallowed losses in one investment basket (active like real estate versus passive like stocks) from being used to offset gains in another investment basket. Thus, limited partnerships fell by the wayside.

“There are three types of REITs: equity REITs that invest in properties, mortgage REITs that make loans and hybrid REITs that do both. Today there are 172 REITs: 146 are equity and 26 are mortgage.

“In the 60s construction mortgage REITs proliferated. A bank or savings and

loan institution that had reached its legal lending limit could form a REIT, gather capital from the public markets and then make more loans. So we had a lot of banks making indiscriminate loans to developers that got the buildings up but never filled them. This led to the real estate bubble and crash in the late 80s. And REITs got a bad name as a result.

“In the 1990s REITs became a major source of capital and securitization of debt became very popular through commercial mortgage backed securities (CMBS).

“Today people are doing not only public REITs but private REITs because they fit so well into a stock and bond portfolio.”

dustry any place in the world where there has been positive earnings growth for 25 years in a row?" Not all years have seen stellar performance but "there is no other industry in the world that on average has had positive earnings growth every year."

It's no wonder that more and more individuals and institutional investors are adding real estate to their portfolios. Capital is flowing into the US in search of solid properties and the competition is fierce. There is more money looking for real estate acquisitions than there are available properties.

"Right now, if a high quality office building in New York City were put up for sale, there would be 10 pension fund advisors, five international investors and five REITs all trying to buy the same property and bidding up the price in the process. It's called the 'wall of capital.'

"Capital, obviously, is a major component in the real estate market. Historically, it's been from private sources. It wasn't until the 1990s in the US that REITs began to enjoy access to public markets," said Mueller. "Cross-border investing started to take off in 2000, and the size and health of different markets drive their future."

Global markets

When investors can't find what they're looking for in the US, they turn to global markets. "All the major REIT managers in the US are starting to put together international real estate funds," said Mueller. But

Capital is flowing into the US in search of solid properties and the competition is fierce. There are not enough available properties to meet demand.

it's not that easy. Often, there's a dearth of available stock and it can take weeks for shares to come on the market. So it's a waiting game.

Currency rates pose another problem. "You could make 20 percent on an investment and lose 20 percent just through the fluctuations in the currency exchange rate. So that is an additional variable that we have to worry about as we make investments internationally."

But markets with high returns will continue to attract capital. According to Mueller . . .

■ Real estate returns in the Americas, including Canada and Mexico, are totally dominated by US markets.

■ In Europe the best returns are out of Ireland and Norway. Other major markets include Switzerland, Sweden, the UK, France, Germany and the Netherlands.

■ In Asia, Hong Kong has mellowed out but is still viable.

"A lot of people are trying to go to Asia because they believe there is a strong potential in places like China and India. As these economies grow, the value of their real estate is going to explode," said Mueller.

Although the global real estate market is an appealing buffet of investment op-

portunities, Mueller cautioned: "I believe real estate still is a very local market investment, and you need to be very careful.

"Whether you're making the investment directly or whether you're investing in a securities form such as a REIT, you need to understand what that local market is about."

Things to know when investing in another country: "The size of that market and how much is being traded. Liquidity impacts return. The more liquidity, the better the return is going to be."

It's essential to have a local partner when dealing in international real estate or even in an unfamiliar domestic market. "Every market is unique and you need to understand the characteristics that set it apart," Mueller advised.

"We will never invest anywhere without having a local partner because we will lose. Real estate is so localized that you have to be a specialist in the area."

The success of the US REIT market has inspired other countries to set up similar vehicles, said Mueller. Not all of them will succeed at the same level.

"If countries aren't willing to adopt the tax laws and structures that make this work, they will never have a REIT market." ♦

Globalization of Real Estate Capital Flows

Raj Bhandari and **Tim Morris** provided the Global Executive Forum with fundamentals on the growth of the public real estate market in India and globally.

***RAJ BHANDARI** is principal at West University Capital. He has 20 years of real estate experience in the areas of principal investment, development and management including with Hines and Bakers Trust. Bhandari is actively evaluating several investment and development opportunities in India. Bhandari has been instrumental in the formation of SUN-Apollo Indian Real Estate Fund, which is currently raising \$300 million in equity. Previously he represented Hines and its real estate fund in India. Bhandari has a BSc from the University of Bombay and an MBA from Kellogg Graduate School of Management.*

India's real estate market: On the radar screen at last

Not so long ago, real estate in India failed to arouse much interest from global or domestic investors, said Raj Bhandari. "Indian banks and Indian pension funds were largely not allowed to invest in real estate in India. It was almost completely financed by entrepreneurs and end users. If one wanted to buy a house or apartment a few years ago the odds were that they paid the entire purchase price in cash. Mortgages were generally too expensive. Add to that the fact that real estate in India was expensive and one of its cities (Mumbai) was ranked as one of the most expensive in the world.

"As to my personal experience in India, in 1996-97, I was the only person in India representing an institutional real es-

tate investment firm when I represented Hines' real estate fund with Morgan Stanley and TCW." After India conducted underground nuclear tests in early 1998, the Fund withdrew from the Indian market. Two years ago, Bhandari once again returned to India to explore opportunities in real estate. "People like Morgan Stanley and Hines basically said, 'Thanks, but no thanks. India is not on the radar.'" Likewise, a year-and-a-half ago, at one of the largest real estate trade shows in the world, "there was not a single desk or representative from India." Fast forward to 2005 and you find "almost every major real estate conference listing an Indian panel," said Bhandari.

"Approximately 15 firms at present including some of the largest real estate firms in the world are currently seeking to set up shops in India, including Morgan Stanley,

Blackstone and Apollo.”

Bhandari attributes this newfound interest to a piece of Indian legislation enacted in February 2005 which relaxed government restrictions on foreign direct investment in real estate. The new FDI guidelines “opened the floodgates” of foreign investment into all sectors of India’s real estate market.

But Bhandari noted, “It’s still a very, very, young and emerging market, similar to what you may have seen in the US in the 1930s or 40s. India’s real estate market has not matured to the level where one can get accurate and reliable numbers on market size, etc.; the information just doesn’t exist. Information for a subset, which includes newer developments in larger metros, there are more reliable numbers – on rental rates, market size, cap rates, etc. But this subset is a small portion of the total market.”

The mortgage market is fueling real estate investment domestically. “The mortgage market as a percent of GDP in India is one of the lowest, partly because historically the interest rates have been higher in India and tax benefits have been lagging. But that has changed,” said Bhandari, pointing to the greater availability of mortgages along with a lowering of interest rates. “In 10 years the interest rates have gone from approximately 15 percent to about the current 8 percent.”

India’s middle class is increasingly becoming urban and consumption oriented, and their purchasing power is the real driver of the country’s economy.

10th largest GDP

“The fact that India is the tenth largest economy by GDP can be misleading,” said Bhandari. “The numbers - more than a billion people – are what make it the 10th largest economy. The average income of an Indian, meanwhile, is comparable to some of the poorest countries in the world: around \$650, \$700 per year.”

However, the average annual income doesn’t tell the whole story. According to Bhandari, the purchasing power of India’s middle class, which numbers 200 million, is the real driver “Incomes of middle class Indians are growing by approximately 15 percent a year. The middle class is increasingly becoming urban and consumption oriented.” As an example of how consumer patterns have changed, Bhandari offered these statistics: “In 1991, 150,000 cars were sold. The sales at present are around a million.”

Reforms have stimulated growth in other areas. “In 1991, there was only one airline company in India; today there are eight domestic carriers. And India has become the world’s second largest market for

aircraft manufacturers, a vast change in just the last 10 years.

“Organized retail outlets are also growing. One example is malls, projected to grow from 30 in 2005 to around 300 in 2008.”

India’s highly educated, lower-cost workforce, which is drawing foreign companies to outsource various business processes to its shores, will continue to fuel growth in the country and ramp up demand for real estate, said Bhandari.

Obstacles?

“Infrastructure is a big problem. People sometimes are building Class A office buildings before there is a road to get to them. Highways are being planned and built rapidly but it’s going to take time for the country to put in place an infrastructure that one expects from an economy of its size. For example, trains, the preferred form of transportation for most Indians, require large infrastructure upgrades. Three or four major airports are being privatized and Bangalore, one of the fastest growing metros and one everyone hears about as being the Silicon Valley of India, will only now have an international airport.”

A guest remarked, “India is still a country with enormous poverty and little infrastructure. But for what they have, they have really produced outstanding results.”♦

J. TIMOTHY MORRIS is a managing director of Morgan Stanley, serves as the global chief financial officer of Morgan Stanley’s real estate investing business, is the global chief investment officer of the Morgan Stanley Real Estate Special Situations Fund II and is an investment committee member of the Morgan Stanley Real Estate Funds. He previously served as the co-head of Morgan Stanley’s European real estate investing business in London and spent the previous 13 years in New York and Hong Kong assisting real estate clients in accessing the international debt and equity capital markets. He received his BS in finance from Indiana University.

Global investing: Competition for capital creates opportunities

“Morgan Stanley has been investing in real estate since 1990,” said Tim Morris. “We have invested in 17 markets around

World Development Indicators database

World Bank, 15 July 2005

Total GDP 2004 Top 20 countries

Ranking	Economy	(millions of US dollars)
1	United States	11,867,515
2	Japan	4,823,398
3	Germany	2,714,418
4	United Kingdom	2,140,898
5	France	2,002,582 a
6	Italy	1,872,302
7	China	1,849,329
8	Spain	991,442
9	Canada	979,784
10	India	691,876
11	Korea, Rep.	679,674
12	Mexico	676,497
13	Australia	631,256
14	Brazil	604,855
15	Russian Federation	582,395
16	Netherlands	577,280
17	Switzerland	359,465
18	Belgium	349,830
19	Sweden	346,404
20	Turkey	301,950

a. Data include the French overseas departments of French Guiana, Guadeloupe, Martinique, and Réunion.

the world ranging from western Europe to Japan, China, Hong Kong, Taiwan, Singapore, Thailand and Brazil.” About 50 percent of Morgan Stanley’s \$40 billion of real estate holdings is in the United States, 25 percent in Europe and 25 percent in Asia.

The ability to allocate capital to multiple markets equates to better risk adjusted returns. “Our total returns have been 21 percent back to investors over a 15-year period of time.” Japan is Morgan Stanley’s largest and best performing market, with a workforce of 120 people. “We started investing in Japan in 1997 and the return has been about 37 percent,” said Morris.

“All real estate is local. So we now have 19 offices around the world including London, New York, Milan, Beijing, Shanghai, Mumbai, Tokyo and Hong Kong. The other aspect of international real estate investing is to have good local partners; you can’t do it by yourself.” Identifying those partners takes a lot of time, he added.

Morgan Stanley has “close to 200 operating partners around the world.” In China, the challenge has been to figure out who has what it takes to qualify for partner. “The prospective partners are all young, strong companies that are ambitious but they need a lot of help from us to get to the level where they can deal with international institutional investors,” said Morris.

In the international marketplace, “there’s a big transformation of real estate taking place,” he said. “It’s going from non-traditional real estate owners and moving in bulk to organizations like Morgan Stanley Real Estate Funds. We manage the properties for a couple of years, stabilize them, improve them and start to show a positive story. Then we sell them out on the retail side. That wholesale-to-retail trade has been a big market for us.”

Typically the buyers in these transactions are local investors.

Western-style properties have set the standard worldwide; consequently, “the architecture has become very homogeneous,” said Morris. “It would be very sad if one day you wake up and can’t tell whether you’re in Hong Kong, Mumbai or Shanghai. But that’s kind of where it’s going.”

Market highlights

Morris identified what he called “interesting markets and opportunities.

■ “Japan’s JREITs, which started about five years ago, are now a \$20 billion market. We think it’s probably going to \$60 billion over the next five years. The dividend

“Capital doesn’t matter anymore; everybody’s got capital. If you’ve got access to deals, that’s the most precious commodity in these markets today.”

yield of the JREITs, many of which are portfolios of Class A office buildings, is at about 3.5 percent. It’s going to make a lot of sense for a lot of capital to find its way into JREITs.

■ “In Russia, Moscow is a city of 12 million people and there is a huge need for housing just as there is in India. There is no lack of capital in Moscow today but clever real estate groups don’t want to be associated with some of that capital because it comes with a lot of baggage.

■ “China is a very under-retailed market. Wal-Mart has extremely ambitious growth plans in the country. They want to have 400 stores there in 10 years. You can’t own land as a private investor but you can get a 70 year lease. In other situations like Hong Kong, there are fairly well-established ways to renew that lease when it expires and investors don’t seem to be deterred by this restriction.

■ “India’s poor infrastructure is going to be one of the big challenges. Morgan Stanley is starting to look at real estate investments there. Eighteen months ago the rules were such that the only thing we could invest in were 200 acre master planned communities, which contain so much risk we would never do it.

■ “Mexico has a housing shortage of five million housing units; they’re building about 350,000 a year. The demographics spell opportunity for investors: 700,000 new household formations a year; 60 percent of the population under the age of 30; a median age of 24.

■ “Turkey is a phenomenal market. Istanbul with 12 million people does not have a Western covered shopping center anywhere. The new mortgage law that went into effect Nov. 1 is going to change the way people spend the small and precious capital they have because the first thing they’ll want is a nice place to live. So you’re going to see a lot of investments there. Turkey is definitely a market that is up and coming and getting a lot of interest.

■ “Spain is a great call in the developed markets. It’s got higher growth and the interest rates are low for what’s going on in that market. So capital is going to continue to flow into Spain as long as that growth continues and interest rates are

where they are. I think you’re going to see it in all the European Union ascension countries.

■ “Europe is a very exciting place to be an investor. The various countries are still competing with each other for capital and capital competition among these governments creates opportunity. One government does something that turns out well and other governments copy it and try to do it better. The competition continues to create good investment opportunities.”

A pan-European environment would be a turnoff for investors. “In Europe we want Europe-specific opportunities and country specific opportunities because the cycles in these countries differ from one another. A pan-European block would flatten everything out and make it less interesting to us as professional investors.” Social issues at the local level will keep this from happening, he added.

Capital is flowing freely across borders in search of opportunities. That makes capital less of a prize. “What we say to people right now is that your competitive advantage in landing a good investment is not capital; everybody’s got capital. If you’ve got access to deals, that’s the most precious commodity in these markets today.”

To illustrate this point, Morris referred to a transaction involving a publicly traded company that Morgan Stanley took private a year ago. The company was Canary Wharf, a \$10 billion office estate in London. “It took us only six phone calls to raise the capital based on our ability to control the deal internationally and then go into syndication.”

Billions of dollars in capital earnings are piling up in the oil producing countries. “At \$60 a barrel, the oil countries are flush with cash and they have a hard time figuring out how to get that money invested.

“So we are benefiting tremendously from people coming to us — as I’m sure all the international managers are — wanting to write checks for \$200 million to \$400 million a pop and asking how soon we can get it invested,” said Morris.

“We’re seeing a lot of that capital and the deals that we’re pursuing are big and complicated and must be worked out. We’re not just buying an office building.” ♦

Managing global property investments

Understanding local laws and bureaucracy key to profits

KENT RICHEY, a partner at Jones Day, is involved with complex real estate investments, joint ventures, real estate acquisitions and dispositions, and real estate finance. He regularly represents real estate funds as well as investment banks, private real estate companies and other institutional investors with real estate matters. He has more than a decade's experience in the real estate industry including as general counsel to the Peabody Funds, private real estate funds, and to Allegro Resorts, an owner/operator of all-inclusive resort hotels controlled by Westbrook Real Estate Partners. Much of his work involves advising on real estate M&A and portfolio transactions and property-based financings in the US, Europe, Latin America and Asia.

What makes a foreign market attractive to a US investor? "Growth" tops the list, Kent Richey said in his address to the Global Executive Forum.

"China and India have phenomenal growth rates," he said. "They are very attractive" from that perspective.

Other contributing factors ...

■ **Distress.** When markets tumble and people are forced to sell assets, opportunities result and investors jump in. Richey referred to the RTC (Resolution Trust Corp.), a quasi-government organization created by Congress in 1989 to deal with the aftermath of the savings & loan failure. Distress doesn't always open opportunity. "After the first Asian crisis in the 90s, even though there was huge distress in the markets, nobody was forced to sell. The banks wouldn't foreclose on the ruling families that owned the properties and so it was very difficult to find opportunities that made sense in that environment."

■ **Market inefficiency.** Markets are inefficient when investors can make excess returns. "Spain and Italy were examples of market inefficiency when cap rates stood at 15 percent and the cost of debt was 3 percent."

■ **Stable government.** "This is the main reason why I believe investors are interested in China. It's not particularly democratic but it's very stable and there's no fear that a power struggle will upset the way you do business there."

■ **Currency.** "If you're going to take a currency risk, you do it in China where the

only way the yuan is apt to move is in your favor. You're not going to have a devaluation of the Chinese yuan against the dollar in the near term. Or you do it in Mexico where the currency has been so closely aligned with the US dollar that it makes sense to take that risk. Same case with India where the balance of trade with the US supports the value of the Indian rupee."

■ **Rule of law.** "China's legal system is civil law which means they have a code; whereas the American and British systems are based on common law. We have codes too, but any sort of code always has some ambiguity, and as that ambiguity gets filled in with court cases you get to better understand how things are going to be decided; thus the system becomes more predictable."

"One of the disadvantages of civil law is that it's not as easy to know what the law is because there's not a lot of case law to fill in the gaps. In Chinese law there is a lot of law but it isn't publicly available. So you could violate a law without knowing it and be thrown in jail. I think they're taking steps in the right direction to correct this but it's still an opaque process in places."

A guest asked, "In markets that don't have a clear rule of law, how do you protect clients' interests?"

"Most investors in China don't rely on the Chinese courts to settle disputes," said Richey. Instead, a provision is inserted into the contract which calls for commercial arbitration. "The Chinese government has made it clear that they do want to honor these arbitration arrangements."

■ **Taxes.** "Real estate generally can't bear two layers of tax at the corporate and investor levels. REITs eliminate the double taxation for US investments, but investments in a foreign country are subject to some local tax most of the time. "Even US tax-exempt investors, such as pension funds and university endowments which generally are not taxed on their US real estate investments, find that they will bear some taxes on their foreign real estate investments."

"One way to reduce local taxes is to establish a lending corporation in some offshore tax haven where the taxes are very low. That corporation then lends money to the onshore company which then pays interest on the loan in addition to expenses.

This reduces its local net income and results in less income tax in the local jurisdiction.

■ **Repatriating funds.** "Taking funds out of a country is not an issue in most jurisdictions today but it is in China. There is a quirk in the Chinese system requiring that when you set up your company you specify exactly how much debt and equity you're going to have in the company." You have to register the debt, register the amount of the equity – when it comes in and when it goes out. That way, if you put in more equity than you were supposed to, you can't take it out.

"It's important to pay attention to details when entering into contracts or partnership agreements. China is a market economy but it still has a very strong socialist approach toward things. If you're a foreign investor, just about everything you do in China has to be approved by the government."

The rules relating to Chinese partners come with their own set of caveats. If you don't deal with them on the front end, said Richey, they can affect your ability to sell a property and claim the profits due you.

Investment destinations

China and India, with two of the largest consumer markets in the world, are attractive destinations for foreign direct investment. "China has a huge amount of FDI, \$61 billion in 2004," said Richey. "In India, where rules for foreign investment have only recently been liberalized, the FDI is substantially lower, about \$5 billion in 2004, equivalent to one month of China's FDI."

How do China and India compare in terms of facilitating development?

"India is messier but more amenable to getting stuff done. But there are also times when you think you have something lined up and it falls apart. Recently, the private sector had plans to develop former mill sites in India but the Supreme Court ruled against development for private use saying the land had to be held for public use."

Said Richey, "I don't think that would happen in China because once the central government has made a decision in favor of development and foreign direct investment, it will generally stick with it." ♦

Y2K and the rise of India as a global player

India's commitment to education important to its growth

RICHARD F. CELESTE is president of Colorado College. Prior to that he was US Ambassador to India and prior to that served two terms as governor of Ohio, one term as lieutenant governor of Ohio, and in between was director of the Peace Corps. He was also a managing partner of Celeste and Sabety Ltd., an economic development consultancy. A Rhodes Scholar and Yale graduate, he taught urban economics at John Carroll University and was a visiting fellow in public policy at Case Western University. He is chair of the board of trustees of the Health Effects Institute, Boston; an advisory board member of Stonebridge International; a member of the Council on Foreign Relations, and a lifetime National Associate of the National Academies.

Richard Celeste took the Global Executive Forum back in time, to the period prior to 2000 and what was thought to be an impending Y2K crisis. He called this “a single phenomenon” that launched India as a serious player in the world economy.

“There was a huge demand for software engineers and programmers to fix Y2K glitches that threatened to disrupt flights on the eve of the millennium and send vital computer data into the dark reaches of cyber space,” said Celeste. The supply of local professionals fell short of meeting the demand and Indian talent rushed in to fill the void. As it turned out, “there was no crisis and the reason was probably because people anticipated there might be a crisis and real work got done.”

Y2K served as “an extended audition for Indian software capabilities and allowed companies like TCS and Wipro to introduce themselves to major American firms. Indian companies realized there were other services they could sell in the US market.”

According to Celeste, “In 1997 Indian exports in software were \$125 million. By 2001 exports were \$2 billion; \$13 billion is what they anticipate in 2006. Fifty percent of India's exports are in the service sector. It's a stunning phenomenon and it will only grow” aided by public policy reforms that have been unfolding since 1991.

The rise of India can be attributed to factors “beyond liberalization and Y2K,” said Celeste. “The Indian diaspora – the dispersion of Indians into the US – has been the single most important driver in

expanding the US-India relationship.” He pointed to the “extraordinary way in which the migration of talent from India to the US has grown. Most return to India but those who stay have become major contributors in virtually every field: engineering, medicine, academic faculties, business and the investment community plus others.

“By 2001 India had surpassed China in the number of students coming to study in this country. In 2004, 80,000 students from India came to the US; 62,000 from China.”

The best and brightest are flocking to US universities but will new immigration restrictions reverse the flow?

“I think it's a serious concern,” said Celeste. “We have foreign students who have to wait three months before they get an interview to be granted a visa and they're going to miss the first months of class here. The result is that thousands of young people are discouraged from coming here.”

US-India relationship

Celeste cited the results of a yearlong study conducted by the Pacific Council on International Policy in conjunction with the Observer Research Foundation. The study, launched in March 2004, looked at the relationship between the United States and India and the direction in which it's headed.

“The study made a series of recommendations relating to barriers in the government-to-government relationship, particularly the constraints on nuclear technology instituted by the US in 1998 following India's testing of nuclear weapons. President Bush in July 2005 reversed these constraints,” said Celeste, clearing the way for the transfer of civilian nuclear reactors to India to meet its energy needs as a growing economic power.

Celeste predicted that “the dynamism of the intellectual ties between our two countries and the 24/7 nature of the collaborative work that goes on” will help the relationship flourish. He referred to India's software development programs and the growing research capabilities in the country. A GE research center in Bangalore had 52 patent applications pending in the US even before it was officially dedicated. The center is tied in to all GE research facilities around the world.

“I think there are opportunities for collaborative research between our two countries and people are going to be investing in them. Biochemistry and stem cell research will benefit. More and more of this research is going to be migrating from the US to Japan, Korea, the UK and also to India where researchers will have a major capacity to undertake it.

“There's an agreement in India to conduct collaborative pharmaceutical tests for new medicines that will accelerate the testing schedule and lead to earlier FDA approvals,” said Celeste. “Indian researchers are involved in everything from nanotechnology to energy alternatives.”

With so much data being communicated via the Internet, information security has become very critical. “The Pacific Council report identified this category as a great opportunity for business investment. US companies interested in doing this kind of work should be investing deeply with Indian talent.”

Celeste noted that in India there is no problem in repatriating funds. “You can invest a lot of money and you can take it out. That's the reason why more and more people are paying attention to India. Last week the Indian government opened telecommunications firms to Foreign Direct Investment of up to 74 percent.”

What sets India apart from countries like China, Japan, the US and most European countries is that more than 50 percent of its population is under the age of 25, said Celeste. “And out of a population of more than a billion people, 630 million are gainfully employed. Some of them may not be making more than a dollar or two a day but all of them are working and working hard at whatever they get and looking for opportunities to get more. So you have a tremendously young and ambitious population.”

The ambition is fueled by the value Indians place on education. “Indians have a commitment to education that drives virtually every family, every village, every part of India today,” said Celeste. “It's one reason why it's important that in the US we take education – from preschool through college – very seriously because the education system and especially higher education has been one of the few clear-cut comparative advantages we've had globally.” ♦

The global economy: US and EU perspectives

Interest rates in the US and EU expansion issues to watch

Richard Bard and Peter Widmer provided the Global Executive Forum with insights into the US and European economies and observations on where China, India and Russia go from here.

RICHARD BARD is founder and manager of Bard Capital, LLC, a private investment company. He is also chairman and CEO of privately owned WG Global, Inc., the leading global provider of surface preparation solutions and equipment to the automotive, aerospace and foundry industries. He has served as chairman of the board of the Federal Reserve Bank of Kansas City. Bard has an MBA in finance from Bernard M. Baruch College at the City University of New York and a BS in civil engineering from Pennsylvania State University. In 2001, Bard was selected by the CU Board of Regents to receive the degree of Doctor of Humane Letters.

Ben Bernanke, the nominee for Chairman of the Board of the Federal Reserve System, will have “a big challenge” when he steps into the large footprints left by retiring Chair Alan Greenspan, said Richard Bard in his address to the Global Executive Forum.

“To some degree Bernanke’s hands will be tied because the world is going to be watching every move he makes in his first two or three Fed meetings to see whether he’s soft on inflation or if he’s carrying forward the Greenspan era of gradual increases in rates,” said Bard.

“The Fed has been raising rates since June 2004 and in large part the tightening has not resulted in any real costs to the economy. But one can certainly make the argument now that we ought to stop.”

The fear of inflation drives interest rate decisions. “The Federal Reserve people are just inflation fighters. They hate inflation and our role as the Fed is to create a stable economy along with long-term economic growth (see sidebar). At the other end of the spectrum is the fear of deflation. Even as the Fed was lowering interest rates to spark the economy, there was a fear that deflation could be an unintended result.

“It was a real concern when the Fed funds rate was down to 1 percent. When there’s no more room to lower rates, you can’t spur the economy,” said Bard. “At 1 percent we were seriously worried about

not having this important tool to impact the economy.”

As the economy started to pick up, “the issue became how to get back to neutral – a fund rate neither too high nor too low – without upsetting the recovery. We’re right at the cusp now and rates are starting to creep up a little bit. So far the recovery is pretty soft because of things like the cost of fuel, commodities, and the natural disasters that have hurt tourism.

Demand-driven inflation

Bard doesn’t see the necessity for increasing interest rates in this economy. “The only reason the Fed raises rates is to put a damper on demand. But what is the demand today that needs to be dampened? Is it new car sales? Is the auto industry taking off? I don’t think it’s housing anymore which has gone through its own cycle. Manufacturing isn’t robust and booming although it’s doing okay for once in a long time.

“So what is so robust about the economy that we have to keep raising rates? I understand the notion that we need to get back to neutral but I think we’re about there.

“Arguably, I think the pressure is going to be on Ben Bernanke to raise rates.”

China and India

Bard referred to his own global business operations in making observations about foreign markets.

“I have two manufacturing businesses that have facilities and sales offices through-

out Europe and Asia. In India we have distributors and we’re looking at doing a joint venture in Mumbai.

“The growth in China is slowing and the demand for basic materials – copper, manganese, steel, petrochemicals – is not on an upward curve anymore. Even so, there are still huge opportunities in China. Forty-one nuclear energy plants are being built in China today and the forecast when they are done and operational is that they will supply only 2 percent of the energy for the country.

“In a lot of ways China is a terrible model. They are sucking up natural resources – fuel, oil, steel, etc. – to feed their growth. It’s a model that’s quite expensive to maintain. Imagine trying to become the biggest entity in the world based on making things cheap. You build a plant that makes little widgets that don’t have a lot of value but you’ve got to build a plant which requires costly energy.

Compare that to the model for India which is based on low-cost technology and some smart people. India is a very elegant model.”

Bard offered some comparative figures generated by the Fed relating to the current per capita GDP of the US, India and China: “US \$35,000; India \$450; China \$860. By 2050, the Fed forecasts a rise in the per capita GDP of all three countries: US \$72,000; China \$8000; India \$4800.”

(Don Stevens noted that the GDP per capita in Shanghai is close to \$5000 “so they’re doing a lot better than the country

The Federal Reserve System

The Federal Reserve System is the central bank of the United States, founded by Congress in 1913 to provide the nation with a safer, more flexible, more stable monetary and financial system. Over the years, its role in banking and the economy has expanded.

Today, the Federal Reserve’s duties fall into four general areas:

- conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy;
- supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and fi-

ancial system and to protect the credit rights of consumers;

- maintaining the stability of the financial system and containing systemic risk that may arise in financial markets;

- providing financial services to depository institutions, the U.S. government, and foreign official institutions, including playing a major role in operating the nation’s payments system.

“It’s a quasi-government agency owned not by the government but by the 12 federal reserve banks that make up the system,” said Richard Bard.

–Federal Reserve Web site; Richard Bard

as a whole. The story of these countries is going to be how many people join the mainstream.”)

As for Europe, Bard's long-term view is very positive. “Russia represents the great opportunity for Europe. Everybody is opening offices in Moscow and other parts of Russia. The need for European technology and machinery is huge in the restructuring of the Russian economy.

“I think it's only a matter of time that Europe will shed some of the malaise that has been there for the last several years. I think it's going to be a good place to do business over time.

***PETER WIDMER** is financial advisor to a small number of wealthy European families. He previously was chairman of Julius Baer Investment Management Inc. and Member of the Executive Board of Julius Baer Holding in Zurich, responsible for the company's institutional investment activities outside Switzerland. Prior to working for Julius Baer, Widmer was with Swiss Bank Corporation and London & Dominion Trust and Thomson-Schwab & Co. He holds the Commercial Diploma from the Swiss Business Association.*

The summer of 2005 will not go down in history as one of Europe's brightest, said Peter Widmer in his address to the Global Executive Forum.

“France and the Netherlands rejected the European Union constitution and this rejection paralyzed the EU and its workings throughout most of the summer.”

Also during the summer, there were political stalemates in key member countries: “In Germany, Chancellor Gerhard Schroeder resigned; in France President Jacques Chirac suffered heart problems, probably more serious than people realized; in the U.K. Prime Minister Tony Blair won a third mandate but without a majority, which weakens him; in Italy, Silvio Berlusconi was and is unpredictable.”

On the upside, “I think fresh blood and thinking are needed at the level of Europe's heads of state and hopefully we will get it over the next couple of years.”

In the meantime, the EU has embarked on a cleanup project to throw out 1500 pieces of obscure legislation over the next few months. There will also be a modernization of land use policies and the creation of uniform regulations to allow cross-border expansion. “All this is in recognition that current regulations hinder productivity,” said Widmer. “I think the momentum is gathering; business confidence actually

“(In 2005) France and the Netherlands rejected the EU constitution and this rejection paralyzed the EU and its workings for most of the summer.”

has improved tremendously in Europe.

“The stock market is probably the best indication of this improved confidence. Year-to-date, stocks are up about 15 percent in local currency terms with their leading performers over 30 percent. The slow markets have been the U.K. with about 13 percent and Italy with less than 10 percent.

Smooth integration

Central Europe is the star of the continent, with a pattern of solid growth. “Following 2004's growth rate of 7 percent, 2005 is expected to come in at 5 percent, the seventh year of growth in this ex-communist block,” said Widmer. Despite the slowdown, he added, the growth is still good within the framework of Europe.

“But inflation has become a problem among the 10 new EU countries of Central Europe: Cyprus (Greek part), Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Several of the EU 10 will probably not qualify for the euro, Europe's single currency, as early as they had hoped, sometime between 2007 and 2009.

Relatively low labor and production costs have drawn manufacturers to the region; “20 percent of cars produced in Europe are produced in these new countries, mostly in Slovakia. Capital investments are estimated to reach about \$45 billion to \$50 billion in 2005. And increasingly, the percentage of profits made there are being retained and reinvested.

“Slovenia is the wealthiest state with 80 percent of EU purchasing power. Poland is one of the weaker ones with only 45 percent. It's a good area for investment.

Widmer agreed with Richard Bard that the potential in Russia was good. “However, these new countries are scared. Russia is unpredictable under Putin. The political and economic future creates insecurity for investment. The free economy concept is in some danger, much more than it was a few years ago.”

Investors are doing well with stocks. “Stock markets in these Central European countries have been strong until recently when rising interest rates and inflation put a damper on stock prices. But Hungary is still up 42 percent this year. Russia is up

over 60 percent. Currencies have been stable against the dollar. Hungary however had a setback because of severe balance-of-payment issues.

Of all the foreign investors in these Central European countries, “the Austrian banks are most active in trying to participate in development projects. Erste Bank Austria now generates two-thirds of its business and profits outside of Austria.

“Bulgaria and Romania are on the chart for EU ascension in 2007. They'll probably miss that date by at least one year,” said Widmer. “The EU considers their progress insufficient in tackling corruption and organized crime, improving the protection of intellectual property rights and establishing cultural safety standards.”

Turkey's EU candidacy

Negotiations with Turkey have started and “they will probably take the better part of 10 years,” said Widmer. There are a lot of conditions Turkey must meet before the EU opens its doors.

“The EU is already applying pressure on Turkey to achieve reforms. Turkey now has two years to totally abolish torture in its prisons, guarantee religious freedoms to minorities and improve conditions for these minorities

“And Turkey must come to terms with recognizing Cyprus, a EU member which is half Greek half Turkish. It's a complicated issue.

EU and Turkish officials are eager to proceed with negotiations. “The EU is Turkey's largest trading partner, absorbing more than 50 percent of Turkish exports,” said Widmer. But resistance to some of the conditions that have been laid down is coming from Turkey's state agencies. “They don't like all this movement toward entrepreneurship.”

The profile of Turkey differs sharply from that of other EU members. “Never before has the EU taken in a new member whose economic status was so out of line with that of other members,” said Widmer. And Turkey's large population is also a new challenge; currently the population is 90 million; projected to be more than 100 million by the time Turkey is accepted for membership. ♦

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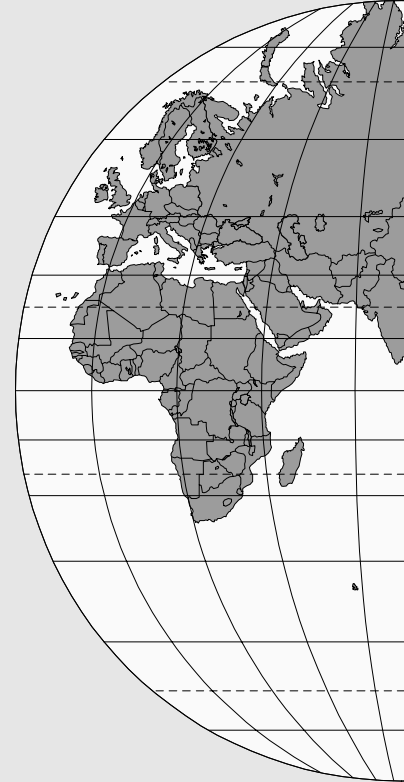
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