

B8336: Real Estate Portfolio Management

Prof. Michael Giliberto
mg2786@columbia.edu

Course Description

This six-session course (offered A term fall 2020) provides students with an introduction to the challenges and decisions faced by portfolio managers that primarily own and operate buildings. The course does not cover investing in real estate securities.

The focus is “macro” or top-down aspects of portfolio management, such as strategy and diversification. Topics include:

- Key decisions that affect portfolio performance
- Assessing alpha opportunities
- Evaluating risk-return tradeoffs

Buy/hold/sell decisions for an individual asset in a portfolio context are discussed, but this course does delve into transactions and deal analysis.

After completing this course students will be familiar with issues that arise in constructing and managing a real estate portfolio, including elements of portfolio strategy, managing diversification, liquidity and risk, and evaluating performance.

Prerequisite: Real Estate Finance (B8331) and its prerequisites or successful completion of the REF exemption exam. *There are no exceptions.* (Contact the MBA Real Estate Program office for information on the exemption exam.) A course on real estate capital markets (equity and/or debt), while not a prerequisite, is recommended and may be taken simultaneously. **A list of material you are expected to know, but which will not be taught in class, is attached to this syllabus.**

Attending the first session is strongly recommended. Since the class meets only six times, roughly 15% of course material will be covered on Day 1. A short assignment is due at the first session. This assignment counts for class participation, although it will not be graded. You may be called upon to answer questions about the assignment in class.

Method of Instruction

Class sessions will be made up of lectures, guest speakers and discussions.

Pre-reading assignments will be posted to Canvas. All reading assignments must be completed prior to the class session.

Expectations and Grading

Grade distribution will be consistent with that promulgated by CBS for elective courses.

Grading is based on two components:

Written assignments (80%)

There will be three graded written assignments. These assignments are done in teams, limited to four members at most. Each team turns in a single paper, and all members receive the same grade for the assignment. The final project will be due after class sessions end. The final project is weighted more heavily than the other two assignments (20/20/40 usually).

The assignments likely will be posted on Canvas by the time class begins. You are encouraged to review them in advance so you can identify relevant concepts and ideas from class sessions.

Written assignments are submitted online.

Class participation (20%)

I expect you to contribute to the learning of your classmates, both through class discussion and during the assignments. Expect cold calling. Participation grades reflect these factors:

- Present and on time for each class meeting
- Active participation in class discussions
- Responding to polling questions during lectures
- When guests are in the room, be respectful and prepared with thoughtful questions
- Device usage (phones, laptops), other than for polling, will take away from your participation grade

Missing sessions without an approved excuse, as defined by CBS, will adversely affect your participation grade.

Bring your name cards and a device to use to respond to Poll Everywhere to each class.

If, as seems likely, classes are held via Zoom or another distance learning approach some of the above participation factors will not be appropriate.

Fall 2020 Syllabus

Tuesdays, 8:30am to 11:45pm (location TBD; Zoom likely)

Please be aware that content order may change from what is printed below. Changes occur due to guest speaker schedules and instructor adjustments as we progress through topics. All changes will be announced and posted to Canvas in advance. *However, it is highly unlikely that assignment due dates will vary.*

Guest speakers listed below presented to the class in fall 2019. The same speakers may not be able to participate in fall 2020.

Most guest speakers work for entities with complicated compliance regimes that limit what employees can discuss in public settings. As a result, *class sessions with guest speakers are strictly off the record, and we cannot record the speakers' portions of these class meetings.*

Session 1	9/08	Course Overview and Introduction to Portfolio Management
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1. Course housekeeping
2. Risk and return choices; fundamental questions
3. Decisions
4. Performance measurement I

Session 2	9/15	Portfolio Construction: Sectors, Metro Areas and Buildings
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1. Portfolio type: Open-end core fund
2. Session focus: Top-down issues in building and running a portfolio, such as sector and geographic selection. Topics will include diversification, generating alpha relative to a benchmark, performance measurement and considerations in managing liquidity in an open-end vehicle.
3. Guest speaker: (Barry Ziering, M&G Investments)
4. Performance measurement II
5. The cruel equations
6. Liquidity management

Session 3	9/22	Concentrated Portfolios and Capital Structure
Written Assignment Due	Core fund sector rotation analysis	

1. Portfolio type: Publicly traded REIT with a concentrated portfolio
2. Session focus: How a portfolio's investments and strategy guide capital structure choices. Decisions about types and amounts of financing.
3. Guest speaker: Christina Chiu, CFO, Empire State Realty Trust)
4. Discussion of assignment 1
5. Elements of capital structure: has leverage "worked"?
6. Moving up the risk curve I

Session 4	9/29	Higher Risk Real Estate Portfolios
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1. Portfolio type: Closed-end value-add fund
2. Session focus: Compared to core assets, how does one assess the risk from value-add strategies and the appropriate incremental returns? Does the approach to diversification differ from core funds? What liquidity management issues does a closed-end fund deal with?
3. Guest speaker: (Brian Carr, HighBrook Investors)
4. Moving up the risk curve II
5. Investor experience in higher risk strategies

Session 5	10/06	Global Portfolios and Capital Allocation
Written Assignment Due	Fizzy Distribution Center case	

1. Portfolio type: Globally diversified pension fund
2. Session focus: You can invest anywhere in the world. You can invest anywhere along the risk curve. You seek to meet a required rate of return. How do you design a suitable portfolio strategy? How do you implement it?
3. Guest speaker: (Manuel (Manny) Casagna, New York State Common Retirement System)
4. Discussion of assignment 2
5. Leverage: the last word?

Session 6	10/13	Portfolio Manager Summit

1. Presentations by and conversations with real estate portfolio managers: (Sue Kolasa, JPMorgan, Ivo de Wit, CBRE Global Investors, Uchi Akeujo, Simon Property Group, James Glen, PGIM)
2. Course summary and wrap up.

FINAL PROJECT (Main Street Property Fund case) is due on October 20. There is no class meeting that day.

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Capital Markets Background

Background work in real estate capital markets is strongly recommended, but it is not a prerequisite for Real Estate Portfolio Management. Whether you've taken or are taking a capital markets course, I expect you to have basic knowledge of topics listed below prior to the start of class. This may come from prior course work – I have been assured that much of this is covered in prerequisite courses -- and/or your own study. I will post material on Canvas that may be helpful as guides or refreshers for some of these in the Pre-Readings section for Session 1.

- Concepts and calculations
 - Marginal cost of debt
 - Leveraged return given unleveraged return and debt parameters
 - WACC
 - Alpha and beta
- Time-weighted and dollar-weighted (IRR) returns
- Open- versus closed-end fund structures
 - Concepts
 - Fee arrangements
- Basics of JV structures
- Marginal buyer as the “price setter” in a competitive market
- What a REIT is