Real Estate Private Equity
Course #: B8334

Syllabus (Subject to change)
Adjunct Professor Andrew Jacobs
Spring 2020

Course Details
Wednesdays, 4:00 pm to 7:15 pm
Room: Uris 332

Required Pre-requisites and Connection to the Core:
Prerequisite(s):
1. B6300 Corp Finance
2. B8331 Real Estate Finance
3. B8332 Real Estate Transactions

Note that it is highly recommend that students take advantage of the REA modeling workshops, especially the one that goes over partnership cash flow waterfalls.

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tbody>
<tr>
<td>Decision Models</td>
<td>1. Use of analysis in decision making</td>
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<tr>
<td></td>
<td>2. Modeling</td>
</tr>
<tr>
<td></td>
<td>3. Sensitivity analysis</td>
</tr>
<tr>
<td>Strategy Formulation</td>
<td>1. Trade-offs, value-added, efficiencies</td>
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<td></td>
<td>2. Scope</td>
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<td>3. Creation of value vs. value capture</td>
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<tr>
<td>Corporate Finance</td>
<td>1. Risk</td>
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<td></td>
<td>2. Time value of money</td>
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<td>Leadership Development</td>
<td>1. Teams</td>
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<tr>
<td></td>
<td>2. Decision making</td>
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<td></td>
<td>3. Influence and persuasion</td>
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Students will be expected to have mastered these concepts and be able to apply them in the course.

Course Objectives
The Real Estate Project Class provides students who intend on pursuing careers in real estate the opportunity to learn how to analyze and execute value-add investments and presentations of same under the guidance of an experienced professor and practitioner, as well as a specific company sponsor. The course will include instruction in investment conceptualization, analysis, strategy, research and execution. Presentation skills, both oral and written, are integral to the course and project. Two (occasionally, one) student groups, each group consisting of three or four students, will work with an outside project sponsor to create a transaction presentation based on a real-world sponsor investment.
Past Investment Projects

The following is a summary of the 2019 investment projects:

- A real estate developer is vacating their current headquarters, a former textile manufacturing facility in West New York, New Jersey. What is the highest and best use for the asset and the value of same?
- A vertically-integrated real estate private equity firm focused on acquiring residential assets in emerging and established New York City submarkets has the opportunity to acquire 146 unsold “sponsor” units in a luxury condominium building on the Upper West Side. What is the value of the units?
- A firm dedicated exclusively to land investment and development is considering the acquisition of a 27.5-acre in-fill site outside of Chicago. Determine the value of the land, including considerations for variables, like zoning uses of the site, predevelopment costs, any sources of public financing, etc.
- Determine the viability of an entrepreneurial real estate venture between a seasoned institutional real estate investor and an ultra-high net worth investor who is a serial entrepreneur. What is your recommended strategy?

The following is a summary of the 2017 investment projects:

- One residential building in the sponsor’s portfolio burned down. What should he do with the insured asset? The Property is encumbered by NYC rent control regulations.
- Develop an innovative retail investment plan for an investment manager. The team needs to consider the material changes in the bricks and mortar retail landscape.
- Build an entrepreneurial business plan to capitalize on the growth of e-commerce vis-a-vie the logistics space. Is “last mile” logistics the right strategy?
- A retail investment manager purchased two high street properties in the same major US market. What are the most desirable and effective business plans? When and how should Sterling sell these properties, and who are the most likely buyers?

The following is a summary of the 2016 investment projects:

- The sponsor made a mortgage loan secured by a five-star New York City hotel. The Property is encumbered by a ground lease, a union contract and a long-term management/franchise agreement with a national flag. What should the Sponsor’s borrower do in order to maximize value?
- Prepare a business plan for the acquisition of a tired five-star hotel in a well-known California wine region, taking into consideration the appropriate risks. What is the target acquisition price, target investment returns and target leverage levels? What strategies should be employed to maximize the real estate value?
- What is the redevelopment potential of a 40+ year old 1.3 mm SF regional mall outside Chicago? Are there additional opportunities to create a more exciting shopping experience that is better suited to the current local demographics? What are the risks and how do you best mitigate those risks?
- An established investor in US properties is considering expansion. Outline a European core plus real estate investment strategy that provides a risk adjusted return and appeals to the sponsor’s Gulf client base. Additionally, please provide the names of several exemplary local operating partners with whom the sponsor can partner.
The following is a summary of the 2015 investment projects:

• What are the highest and best building use, financing methods and an analysis of risks and mitigating factors for an assembled development site in the Financial District in downtown Manhattan?

• Create a business plan for an opportunity to partner with a local developer in major Peruvian city to acquire greenfields, improve them via infrastructure investment, subdivide them into small lots, and sell them to individuals for future self-construction.

• A local developer owns a 1.3 million square foot mixed-use retail center located in a major Midwest city. The property value is significantly below the original construction cost and there is a maturing loan. Additionally, there is an annual deficiency in the public financing TIF bonds. Significant capital will need to be spent on the property in order to increase occupancy and drive sales. What should the owner do?

• Create a business plan for two of the 235 Sears stores that were spun off in July, 2015 when Sears created Seritage Growth Properties (NYSE: SRG). Seritage’s mandate is to create value through the recapture and lease-up of space (from Sears).

The following is a summary of the 2014 investment projects:

• A value-add fund has the option to develop the remainder of a parcel of land in a gentrifying neighborhood of Washington DC. What is the best risk adjusted business plan for the development of the remainder of the site, including an appropriate mix of uses, phasing and potential capitalization?

• A hospitality fund has the opportunity to purchase a large convention hotel in South Florida. Is this a good acquisition for the fund and its investors? If yes, at what price? What are the opportunities to add value? What are the risks?

• A real estate debt investor has the opportunity to purchase a sub-performing loan on a struggling mall in the Southeastern US. What is the optimal risk adjusted redevelopment plan? What price should be paid to complete the loan purchase? What is the optimal capital structure to achieve the new business plan? How should the debt investor manage the project on a day-to-day basis?

• A retail fund manager has the opportunity to purchase a sub-performing mall in the Chicago MSA. Is this a good investment for the manager and their investors? What are the risks and how do you best mitigate those risks? Should the center be redeveloped? If yes, how? Should any alternate uses for the land or a portion of the land be considered? How do you capitalize the deal so that it works for your turnaround plan, including your exit strategy?
Class Sessions
In addition to project work, class sessions will include a combination of the following:

- Discussions led by Professor Jacobs on topics of current interest that support the development of the project, including strategy, real estate investment management, risk analysis, financial structuring, real estate capital markets, real estate fundamentals, research tools, and transactions. These discussions will draw upon students’ prior classes and may parallel, but are not intended to duplicate, topics in the Advanced Seminar in Real Estate and Development classes.
- Investment case studies for which only an image of the project and the location are provided. Students will ask as many questions about the project as they like. Thereafter, the students will collectively make an investment recommendation, including defending their decision.
- Guests who have specific and applicable expertise.
- Approximately one hour at the end of each class is allocated for the groups to work on their projects and confer with Professor Jacobs.
- Where appropriate, site visits to the projects or companies. (This would be outside of class time.)

Grading
Course grades will be based upon:

1. The quality of the final investment presentation (including an investment committee memo) and each individual student’s contribution to same.
2. Student contribution to class discussions.
3. Class attendance (including the Bodini Competition).

Note: The only “deliverables” for the class are (i) the mid-term outline, (ii) the final investment presentation and (iii) the project investment committee memo. There is no final exam, only the final presentation. Also note that per the following schedule provided by the MBA Committee, the mid-term and final investment presentations are designated Type D (an instructor defined type).

In order to avoid ambiguity regarding group and individual work that may lead to unintentional violations of the Honor Code, the MBA Committee has standardized the description types for assignments. They are specified in the table below.

<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Discussion of concepts</th>
<th>Preparation of submission</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>group/group</td>
<td>Permitted with designated group*</td>
<td>By the group</td>
<td>Same grade for each member of group</td>
</tr>
<tr>
<td>B</td>
<td>group/individual</td>
<td>Permitted</td>
<td>Individually (No sharing of any portion of the submission.)</td>
<td>Individual</td>
</tr>
<tr>
<td>C</td>
<td>individual/individual</td>
<td>None of any kind</td>
<td>Individually</td>
<td>Individual</td>
</tr>
<tr>
<td>D</td>
<td>group/group/individual</td>
<td>Permitted with designated group*</td>
<td>By the group</td>
<td>Individual</td>
</tr>
</tbody>
</table>

*The designated group is either the assigned study group or a self-selected one used for the duration of the course.
Schedule (Subject to change)

- 1/29 Overview, including - Expectations, Objectives & Housekeeping;
  Presentation of Sample 2019 Project (presented by last year’s student team)
- 2/5 Project Scope, Strategies, Feasibility & Execution;
  Presentation Tips
- 2/12 Deal Questions & Drivers of Return
- 2/19 Risks/Downside Mitigation
- 2/26 Land Investing;
  Leasing
- 3/4 Group Investment Project Outline Presentations (“Mid-term”)
- 3/11 Half Term Finals – NO CLASS
- 3/18 Spring Break – NO CLASS
- 3/25 Presentation Skills Workshop
- 4/1 RE Secondaries – Introduction;
  Site Selection
- 4/8 RE Secondaries - Valuation Exercise
- 4/15 Manager & Capital Partner Selection Process;
  Managing Partnership Conflicts
- 4/22 Group Investment Project Final Presentations – Part I (All final projects & IC memos to
  be submitted on this date.)
- 4/29 Group Investment Project Final Presentations – Part II
- 5/1 or 5/5 Bodini Real Estate Business Plan Competition (5:00 - 9:00 pm; attendance required)

Professor Jacobs’ office hours:
As needed. Please request appointments via e-mail as far in advance as possible.

Professor Jacobs’ contact Info:
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