Syllabus - Real Estate Private Equity (#: B8334)

Spring 2021

Wednesdays, 3:50 pm to 7:05 pm

Uris 307

PROFESSOR:
Andrew Jacobs
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E-mail: ajacobs@tfewatches.com
Office Hours: As needed. Please request appointments via e-mail as far in advance as possible.

TEACHING ASSISTANT:
Matt Giannuzzi
E-mail: mgiannuzzi21@gsb.columbia.edu

Communications from professor and teaching assistants about the course will take place through Canvas. Students should make sure they regularly check for announcements and messaging notifications.

COURSE DESCRIPTION

Required Pre-requisites:
- B6300 Corp Finance (core course)
- B8331 Real Estate Finance
- B8332 Real Estate Transactions OR at least 1-year experience of real estate/transactions experience with instructor’s permission

Highly recommended REA modeling workshops:
- Partnership cash flow waterfalls
- Introduction to ARGUS.

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 other CBS Real Estate Program 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.
- Where appropriate, site visits to the projects or companies. (This would be outside of class time.)
Student Learning Outcomes
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 veteran real estate owner/investor/intermediary 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 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 recent investment projects:

- What is the highest and best use, as well as the best capitalization for an undeveloped parcel in Nashville?
- An experienced multifamily owner and operator accumulated a small portfolio of assets in a new market for them. They have patient capital. While the owner is executing its existing value-add business plan over the short and medium term, it is considering whether to exit the assets after stabilization, to hold the assets indefinitely or eventually redevelop them.
- 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 infill 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?
- 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 would should Sterling sell these properties, and who are the most likely buyers?
- 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?
- 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?
- Create a business plan for an opportunity to partner with a local developer in a major Peruvian city to acquire greenfield sites, 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?

• 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?

**Required Course Materials**
All materials provided by the professor/TA over the course of the semester.

**Connection to the Core**
• Corporate Finance: Real estate asset valuation methods.
• Strategic Formulation: Investment and operating strategies for real estate owners/operators.
• Marketing: Issues around raising capital for real estate investments.

**COURSE SCHEDULE (Subject to change)**
• 1/14 Overview, including - Expectations, Objectives & Housekeeping;
  Presentation of Sample 2019 Project (presented by last year’s student team)
• 1/21 Project Scope, Strategies, Feasibility & Execution;
  Presentation Tips
• 1/28 Deal Questions & Drivers of Return
• 2/4 Risks/Downside Mitigation
• 2/11 Land Investing;
  Cashflow Waterfalls
• 2/18 Group Investment Project Outline Presentations (“Mid-term”)
• 2/25 Half Term Finals – NO CLASS
• 3/4 Spring Break – NO CLASS
• 3/11 Presentation Skills Workshop
• 3/18 RE Secondaries – Introduction;
  Site Selection
• 4/15 RE Secondaries - Valuation Exercise
• 4/1 Manager & Capital Partner Selection Process;
  Managing Partnership Conflicts
• 4/8 Group Project Final Presentations – Part I (**All final projects & IC memos to be submitted on this date.**)
• 4/15 Group Project Final Presentations – Part II
• 4/16 Bodini Real Estate Business Plan Competition (5:00 - 9:00 pm; attendance required for all class students)
ASSIGNMENTS

Course Deliverables and assignment description types

- The mid-term outline (A);
- The final investment presentation (A); and
- The project investment committee memo. (A)

There is no final exam, only the final presentation.

All of your assignment submissions are subject to the CBS Honor Code. Violations of the CBS Honor Code may lead to failing the assignment, failing the course, suspension, and/or dismissal. In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, assignment description types have been standardized and specified below.

<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Grade</th>
<th>Preparation of submission</th>
<th>Discussion of Submission*</th>
<th>Discussion of Concepts**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Group Work</td>
<td>Same grade for all group members</td>
<td>By the group</td>
<td>Permitted to discuss (within group)</td>
<td>Permitted</td>
</tr>
<tr>
<td>B</td>
<td>Individual w/ Discussions of Concepts and Submission</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Permitted to discuss; sharing solutions or submission files is not allowed</td>
<td>Permitted</td>
</tr>
<tr>
<td>B</td>
<td>Individual w/ Discussions of Concepts Only</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Permitted</td>
</tr>
<tr>
<td>C</td>
<td>Individual</td>
<td>Individual grade</td>
<td>Individual preparation</td>
<td>Not permitted to share/discuss solutions or submission</td>
<td>Not permitted***</td>
</tr>
</tbody>
</table>

The designated group can be either an assigned study group or a self-selected one.

* Submission means any work and/or output pertaining to the specific assignment. If an assignment submission contains a calculation or decision related to a specific set of data and setting, discussing the details how to make this calculation or decision with regard the data/setting is to discuss the submission. Providing another student with a draft of the calculation or decision is sharing the submission.

** Concepts mean any ideas, examples, readings, or other related materials from the class/course. Conceptual discussion should not be based on a specific set of data or setting related to a calculation or decision required in the assignment, but could be based on other related examples, preferably those from class/course materials.

*** As no conceptual discussion is permitted, Type C is akin to a take-home exam.

Method of Evaluation

- The quality of the final investment presentation, including the investment committee memo. (60%)
- Student contribution to class discussions. (25%)
- Class attendance (including the Bodini Competition). (15%)

CLASSROOM NORMS AND EXPECTATIONS

- Students are expected to adhere to CBS Core Culture in this class by being Present, Prepared, and Participating. I can’t over emphasize the importance of class participation in a capstone class like this. There is no penalty for wrong answers. Since I don’t expect everyone to have the same level of real estate experience, clarifying questions are welcome. Bad computer etiquette (e.g. doing anything on your computer, besides taking class notes) is frowned upon.
ATTENDANCE POLICY

Students are required to attend each class. Students should reach out to the instructor or TA regarding excused absences (for religious observances; personal, medical, and family emergencies; military service; court appearances such as jury duty). Unexcused absences will affect your course grade.

NOTE: The following is applicable for Core Courses:

- Students that miss more than 33% of their classes (unexcused absences) will at most receive a P for the course grade
- Students that miss more than 50% of their classes (unexcused absences) will receive a F for the course grade

NOTE: The following is applicable for Core Courses and for any electives with OSA-administered exams:

- Students that miss the exam for an excused reason but are unable to take the exam within the stated make-up period will receive a zero for the final exam grade
- Students that miss the exam without notifying OSA (unexcused), will receive an F for the course grade.

This course may use Poll Everywhere as a tool to increase in-class student engagement. Poll Everywhere may also be used to confirm student attendance and participation records. Students who have concerns regarding whether their responses have been recorded should contact the instructor.

If a student is absent from class and is allowed to attend a different cluster’s class meeting, it is at the discretion of the faculty member to count responses to any polls presented during this time as attendance or participation.

Finally, if a student is not present in the classroom at the time of a poll (due to absences or any other reasons), the poll should not be answered. Responding to a poll when not present in the classroom is a violation of the Honor Code.

INCLUSION, ACCOMMODATIONS AND SUPPORT FOR STUDENTS

At Columbia Business School, we believe that diversity strengthens any community or business model and brings it greater success. Columbia Business School is committed to providing all students with the equal opportunity to thrive in the classroom by providing a learning, living, and working environment free from discrimination, harassment, and bias on the basis of gender, sexual orientation, race, ethnicity, socioeconomic status, or ability.

Columbia Business School will make reasonable accommodations for persons with documented disabilities. Students are encouraged to contact the Columbia University’s Office of Disability Services for information about registration. Students seeking accommodation in the classroom may obtain information on the services offered by Columbia University’s Office of Disability Services online at www.health.columbia.edu/docs/services/ods/index.html or by contacting (212) 854-2388.

Columbia Business School is committed to maintaining a safe environment for students, staff and faculty. Because of this commitment and because of federal and state regulations, we must advise you that if you tell any of your instructors about sexual harassment or gender-based misconduct involving a member of the campus community, your instructor is required to report this information to a Title IX Coordinator. They will treat this information as private, but will need to follow up with you and possibly look into the matter. Counseling and Psychological Services, the Office of the University Chaplain, and the Ombuds Office for Gender-Based Misconduct are confidential resources available for students, staff and faculty. “Gender-based misconduct” includes sexual assault, stalking, sexual harassment, dating violence, domestic violence, sexual exploitation, and gender-based harassment. For more information, see http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students.