

COURSE SYLLABUS
PRIVATE EQUITY DEVELOPMENT – HOSPITALITY FOCUS
SPRING A – 2017
COURSE NUMBER PLA6583
1.5 CREDITS

DAY: Tuesdays, from January 17th to February 28th 2017

TIME: 4-6pm

ROOM: 200 S Fayerweather

Instructor: Rani Gharbié
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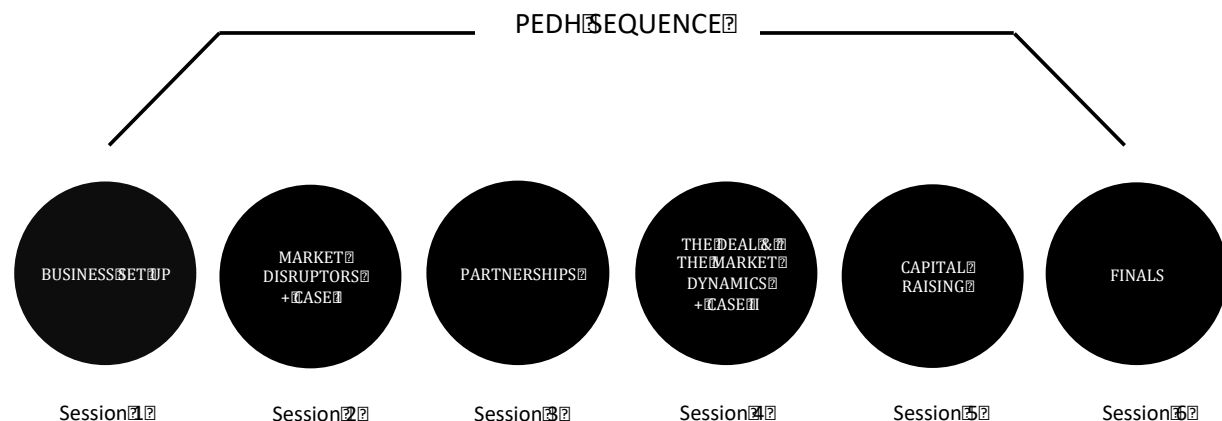
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I. COURSE DESCRIPTION

“There are new sources of capital, structures and technologies that are beginning to dominate people’s thinking. This is not an evolution to ignore”
- MIPIM 2014

The 'Private Equity Development: Lodging' course discusses the rapidly evolving real estate investment and development industry, and addresses various approaches in capital markets. The course covers major facets of creating a private equity development business while focusing on hotel development projects. The course also discusses key industry disruptors that have been triggered by the rise of technology and sharing economy - crowdfunding, home / office sharing, online travel agencies and others. We also discuss the growing movement around the next generation of travelers and its impact on hotel investment and development.

The structure of the six sessions will follow the typical progress of a private equity development deal as illustrated below:



II. COURSE OBJECTIVE

At the conclusion of the course students should be able to:

- Relate to structuring a Development Firm – alliances and partnerships, legal and commercial negotiations, team, advisory board and consultants' selection.
- Understand the context of Hotels as an Investment Asset Class - who invests, share of the investment grade in the market and industry structure
- Understand the basics of Raising Funds (Equity and Debt) - project agnostic vs. project based fund funded by Private Equity, SWF, Family Offices and Crowdfunding
- Negotiate partnership terms – between Co-developer / General Partner and Joint Venture partners, Limited Partner and lending institutions
- Evaluate and Underwrite Investment Returns and Waterfall Structures – accounting for Developer Equity, Preferred Equity, Promote set up, Acquisition loans, Construction Loan Guarantees.
- Understand Crowdfunding – pros and cons of this fund-raising vehicle in developed and emerging markets.
- Explain the Industry Disruptors - Impact of technology / shared economy on hotel real estate investment (i.e. booking.com vs hilton.com). Impact of AirBNB on Hotel and Residential stock - a NYC perspective
- Differentiate between Chains Hotels and Independent Boutique Hotels - Design, Development and Investment perspectives - Asset Heavy vs. Asset Light
- Decipher the creation of a new hotel real estate brand - the next generation of Yotel, Kimpton, Edition, Ace Hotels.
- Think of critical industry trends – i) Lending institution's perception shift towards the immersions of the independent hotel sector ii) Next generation of hotels as vigorous neighborhood catalysts - impact on design, development and investment and iii) The X & Y Generation of Travelers - A new movement not to ignore.

III. COURSE REQUIREMENTS AND ASSIGNMENTS

The class requires some financial analysis. Accordingly, some previous experience or familiarity with basic real estate and hotel financial analytic methods (direct capitalization and discounted cash flow) is required.

Fundamental Concepts of Private Equity: This course will include lectures on the nature, structure, typical practices of private equity transactions in real estate, specifically hotels: from the initial decision to establish an investment entity, through the details of the allocation of returns and risk between investment partners, to the delivery of the development and the crystallization of value.

Pop Quiz/zes: A quiz, or quizzes, to be completed individually will be set in class without notice. Each quiz is intended to consolidate the student's advancement in learning the private equity concepts during the course.

Case Studies: This course includes two case studies representing 40% of the final grade. Case preparation guideline will be provided. Please respect the maximum length established for each case. The first case is to be completed individually and submission will be limited to one pager and in class discussion. The second case is to be prepared and submitted by teams of 4-6 students. It is up to students to form teams however there is an expectation that teams will be diverse and that the individual members will complement each other's skills.

We will discuss each case in-depth in class on the date the assignment is due. Please have a copy of your submissions and/ or working papers available for reference during the discussion. Submissions are due at the start of class and must be submitted electronically on CourseWorks prior to the class on submission date and in hard copy format in class. **Late e-mail submissions will not be accepted.**

Final Exam: Same teams of 4-6 students from the second case study will present an Investment Memorandum for a hotel site acquisition and development opportunity in Manhattan. The presentation will be in class and addressed to a panel of prominent industry leaders. The Investment Memorandum should naturally reflect a thorough assimilation of the material and the deal cycle format discussed throughout the semester. All students should attend.

Guests: Total four exceptional industry experts will be invited as guest speakers. One guest speaker will be scheduled for a 45min presentation, followed by a 15-minute Q&A. Also, three industry leaders will form the panel for the Final Exam. Students are requested to prepare for the guests' presentations and interactions by thoroughly researching the speaker's profiles, their recent activities and their company websites.

IV. COURSE GRADING CRITERIA

15% Participation
15% Pop Quiz
20% Case I (Individual / In Class Workshop)
20% Case II (Groups of 4-6)
30% Final Exam (Groups of 4-6) – Industry Panel

The participation grade will be based on attendance, preparation for class (i.e., completion of reading), and contribution to the exchange and dynamics of the class. Attendance and punctuality at all sessions are prerequisites.

Grades for group Case Studies and Final Exam are normally awarded equally to each student with a Group. The grade is a function of the quantitative and qualitative analysis in the written submission and presentation to the class and to the panel of industry leaders – as applicable.

V. READINGS

The list of readings is included in each session under the Course Outline below. Students will be expected to complete readings in advance of class. The required readings will be posted at least one week in advance. Download the reading materials from CourseWorks, Columbia Library and Harvard library, as relevant.

Students should consult CourseWorks regularly for new material including assignments, change notices, readings, case guidelines, PowerPoints, etc. Readings have been selected to provide a combination of academic and practitioner perspectives.

Note that the links provided in this outline take Students to websites that they must thoroughly review ahead of the relevant session.

VII. COURSE OUTLINE

Class 1: January 17th, 2017

Business Set-Up: Starting a Real Estate Investment and Development Platform

- This introductory lecture discusses hotels in the context of an investment asset class - who invests, share of the investment grade in the market and industry structure
- The session will also cover real estate development fundamentals via the creation of a development firm ready for institutional scrutiny.
- This class will encourage critical thinking and drive students to reflect, collaborate and formulate a preliminary business plan around building a real estate development business

Required Reading:

- Introductory Ready: The Grand Hotel Wars, To Capture Claridge's, by Dana Vachon, August 2014 (CourseWorks)
- JV term sheet (CourseWorks)

No class on January 24th, 2017

Class 2: January 31st, 2017

Market Disruptors: Shared Economy and impact on Real Estate Investing

Submission of Case I at the start of the class - Refer to Case I Guidelines Document.

Class 2 Part I will be dedicated for the review of Case Study I:

- Individual Case Study available on Harvard portal - "[Prodigy Network](#): Democratizing Real Estate Design and Financing", Karim R. Lakhani, Katja Hutter, Greta Friar. This case

follows Rodrigo Nino, founder and CEO of commercial real estate development company Prodigy Network, as he develops an equity-based crowdfunding platform.

- This session will cover the emergence of industry disruptors ranging from Crowdfunding to trends in hotel brands, design, massing, layouts, amenities
- We will cover the impact of disruptors on hotel operation, addressing subjects such as Online Travel Agencies on the value proposition of hotel chains, their distribution systems and their loyalty programs (*i.e.* booking.com vs. hilton.com)
- Close look at Airbnb's quantitative impact on the hotel market in NYC
- Comparative performance analysis of hotel chains vs independent hotels during and immediately post economic downturns

Class 2 Part 2: Guest Speaker 45 min – under review: Rodrigo Nino, Founder and CEO, Prodigy Network, A leading real estate crowd funding business.

Required Reading:

- “Who’s Sleeping with You? A Detailed Look into The US Online Hotel Guest”, ADARA. 2013
- “Airbnb and Impacts on the New York City Lodging Market and Economy”, HVS, Oct 2015
- “Airbnb in the City”, New York State Attorney General, Oct 2014 (CourseWorks)
- Read about Prodigy Network and prepare relevant questions for our guest speaker

Class 3: February 7th, 2017

Partnerships: Starting a Real Estate Investment and Development Platform

- This class will discuss investment niche, partnerships, credibility framework, seed capital, and in-house expertise versus consultants.
- This session will explore options for Partnerships and Joint Venture at a Sponsorship level, and review the different layers of construction loan guarantees
- We will cover the increased appetite of traditional equity and debt sources towards operating partners (*i.e.* a hotel development firm)

Required Reading:

- Vicky Ward “The Liar’s Ball”, “The Rigged Bid” (chap 3), 2014 (CourseWorks and Library)
- Condo Development Joint Venture Term Sheet – Cambridge, MA (CourseWorks)
- Construction Loan Guarantee for the USA – Jones Lang LaSalle summary report 2014 (CourseWorks)

Class 4: February 14th, 2017

The Deal & The Market Dynamics: Sourcing an Opportunity in Varying Market Conditions

Submission of Case II at the start of the class - Refer to Case II Guidelines Document.

Class 4 Part I:

- This class will discuss optimal strategies to building the right relationships and sourcing the right deals
- We will also discuss market opportunities at various stages in the real estate cycle, be it Land Purchase versus Land Lease, On-Market versus Off-Market and Value Add Investment (conversion/ renovation) versus Ground Up Development
- We will revisit financial modeling and discuss optimal underwriting approaches. We will look at technical aspects of private equity structures, construction financing, completion guarantees, risk assessment, and distributions / promote We will also discuss time management and efficient approach to assessing the economic and the strategic viabilities of deals
- We will review a redacted Investment Memorandum for a real hotel development deal.

Class 4 Part II will be dedicated for the review of Case Study II :

In preparation for the Final Exam we will conduct an in-class Case Study review – The case is available on Harvard portal - “Hotel Perennial”, by Denise Akason, Bill Bennett, Franco Famularo. The Hotel Perennial case puts students in the shoes of the CEO of a boutique real estate private equity firm as he wrestles with the decision of whether or not to acquire the distressed Hotel Perennial, a 194-room hotel.

Required Reading:

- Offering Memorandum, Orchard Street Hotel, Distressed Asset (CourseWorks)
- Acquisition Terms Sheet for the development of 60 Water Street, Financial District
- Paul Mouchakaa, Managing Director, Morgan Stanley Real Estate, “Frozen on the Rates: Impact of Interest Rates on Capitalization Rates”, January 2014

Class 5: February 21st, 2017

Raising Funds: A Deep Dive into Structuring a Capital Stack for a Deal

- This class will assess a variety of equity sources including Private Equity firms, Sovereign Wealth Funds and Family Offices.
- In this session we discuss a variety of partnership permutations between the General Partner (business owner / real estate developer) and other potential partners, such as Balance Sheet Partners, Equity Partners, Lenders, EB5 financing etc.
- We will also discuss the changing behavior of equity and debt sources within the real estate cycle and vis-à-vis new genre of investments such Independent hotels, WeWork commercial space.

And if we have time ...

- We will discuss the sale and disposition of branded vs. unbranded assets, and review Waterfall structures and return on investment for all positions in the capital stack.
- A look at the latest sale of Starwood Capital’s Baccarat hotel in NYC, and IHG’s three trophy hotels in NYC, London and Hong Kong.
- We will also discuss the strategy behind the latest acquisition of a lifestyle hotel group by a hotel Chain: IHG’s acquisition of Kimpton hotels

Required Reading:

- Fund Formation / Capital Raising Term Sheet – NYC, NY - (CourseWorks)
- Offering Memorandum for a C Corp Development Site, 3 East 5th Street, Lower Manhattan, New York (Redacted) - (CourseWorks)
- Hotel Transactions Update, CBRE, Oct 2015 (CourseWorks)

Class 6: February 28th, 2017

Final Exam: Preparing & Presenting your Investment Case to Senior Industry Experts

Submission and Presentation of Final Exam I at the start of the class – Refer to Finals Guidelines Document.

Students in groups of 4-6 are asked to prepare and present an Investment Memorandum to raise capital for either a hotel development or a renovation/repositioning opportunity in New York City. Each group is expected to pitch their investment case and defend their investment strategy by thoroughly covering various facets of a private equity development deal including but not limited to project/site acquisition, development costs, concept / value proposition, sponsorship set up, financial analysis, investment offering, promote structure, market economics, risks and sensitivities.

The presentation will be in our class theater and addressed to your classmates and to a guest panel of industry experts. The panel will act as the investment committee for the Final Exam. You are expected to thoroughly research the panelists, their recent activities and their company websites. As in real life, an in-depth understanding of your audience when pitching an investment deal is simply invaluable.

INVESTMENT PANEL FOR THE FINAL EXAM – UNDER REVIEW

- Richard Gomel, Partner at Junius, JPM Private Equity, NYC.
- Mark Wynn Smith, Global CEO of JLL hotels
- Bob Chitty, Global SVP, Capital Investment, IHG