Course Objective

To introduce the basic framework of Commercial Real Estate (CRE) investment through a lens of distressed situations. Basic elements of bankruptcy procedure and valuation will be discussed, with a specific concentration on those issues most pertinent to CRE workout situations. Common characteristics of and factors that lead to distress also will be addressed. Students will be exposed to cases and experts that bring forth legal, valuation, strategic, and other key considerations typical in CRE workouts – with maximum recovery from a lender, borrower, and joint-venture partner perspective.

Prerequisite exposure to real estate finance, property valuation, CRE capital markets, negotiation, and real property law are strongly encouraged. The course is recommended for those students with a meaningful quantitative background, relevant financial modeling, and/or legal experience.

Admission to the course is via application. Students from Columbia MSRED and other Columbia graduate programs are encouraged to apply.

IMPORTANT NOTE: Some class sessions are expected to be held on varying days/times throughout the semester, as detailed herein. All students should review the syllabus prior to applying for registration in the course to ensure that they can adhere to the attendance policy in light of certain variable class dates/times. Further note that some classes may need to be rescheduled or re-sequenced during the semester; the professor will endeavor to provide as much advance notice as practicable in those circumstances.

Administrative

Office Hours: By advance appointment

Contact: 646/593-0155 mobile
dds2134@columbia.edu or donsheets@yahoo.com

Email is the preferred means

Teaching Assistant: Andrew D. Wright
929/389-7006 mobile
andrew.wright@colubria.edu

Grading: 20% Participation and Attendance
30% Assignments #1, #2, and #3 (weighting @ 10% each)
50% Final Exam/Investment Committee Presentation
Students should read the requirements of the Assignments and Final Exam, as well as the attendance policy, ahead of subscribing for the course.

**Attendance:**

Attendance is mandatory. The participation element of grading will be a function of attendance, voluntary participation, and cold-calling participation throughout each class. Students should come to each class fully engaged and prepared.

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**Professor Biography**

Donald Sheets is Managing Partner of AlumCreek Holdings LLC (“ACH”) and has over eighteen years of leadership, property acquisition, asset management, capital formation, and restructuring experience across a variety of capital structures, asset types, and geographies.

Prior to founding ACH, Donald was a Senior Principal with Square Mile Capital Management (“SMCM”). At SMCM, a $1.8 billion AUM private equity fund, Donald co-led the transaction team and identified, structured, and negotiated non-traditional commercial real estate investment opportunities. During his tenure with SMCM, Donald sourced, underwrote, and closed the acquisition of over 130 mid-balance commercial mortgages across several transactions aggregating approximately $2.1 billion in outstanding principal balance. Among other investments, Donald sourced, negotiated, executed, and managed the day-to-day strategic oversight of two complex portfolio transactions with the FDIC to acquire over 100 controlling interests in $1.3 billion of performing and non-performing mid-balance commercial mortgage debt formerly held by a failed U.S. banking institution. Donald co-led each of the two ventures and served as the primary interface to the FDIC and over 120 community and regional participant banks. Donald also sourced, negotiated, executed, and oversaw the day-to-day strategic management of a portfolio acquired from Bank of America containing 23 mid-balance performing and non-performing commercial mortgages aggregating over $630 million in outstanding balance. Donald pioneered a proprietary financing mechanism that produced, for the first time since the RTC Era, a liquidating trust pass-through securitization secured primarily by performing and sub-performing commercial mortgage debt and led two of these capital markets transactions.

Prior to his role at SMCM, Donald initiated a special-situation commercial real estate investment platform and built a team at Davidson Kempner Capital Management (“DKCM”), a $20 billion AUM multi-strategy hedge fund. While at DKCM, Donald sourced, underwrote, and managed over $1.1 billion in profitable risk-based capital exposure across dozens of transactions. Prior to DKCM, Donald worked for The Carlyle Group, EastBanc, and Starwood Urban Investments.

Throughout his career, Donald has recruited, trained, and managed multiple teams of transaction and strategic asset management professionals. He has sourced and directly
managed over $3.6 billion in approximately 75 transactions including the acquisition of performing, sub-performing and non-performing commercial mortgage claims, distressed real estate-related debt, long/short public real estate equities, high-yield preferred real estate securities, mezzanine financing, and real estate enterprise liquidations. Donald has overseen all stages of the investment cycle including proprietary research, sourcing, execution, financing, asset management, and disposition with a profitable track record in the U.S., Canada, and Australia.

Donald was appointed in 2009 to the faculty of both Columbia University and New York University, where he developed and continues to teach the first graduate-level distressed real estate investing coursework within each university's curriculum. He serves as an alumnus practitioner on the Harvard Real Estate Academic Initiative and actively guest lectures at The Massachusetts Institute of Technology, The George Washington University, and Harvard University.

Donald is a Board Member and Member of the Audit Committee of Educational Housing Services, which is New York’s largest student-housing provider. Donald serves on the Board of Governors of the Commercial Real Estate Finance Council (“CREFC”), is Co-Chair of the CREFC Education Committee, and previously was Co-Chair of the CREFC High Yield and Distressed Realty Assets Forum.

Donald received a B.B.A. in Accounting and Real Estate Finance from The George Washington University magna cum laude and received an M.B.A. from Harvard Business School.

Course Framework (course sequence, content, and guests are subject to change – the professor will endeavor to provide advance notice in those instances)

Session 1 – Tuesday September 6, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session: Case Study – “The Impact of Falling Rents on Property Performance” (Moody’s); “Losing More than Your Loan” (Talmage); “Flocking to Europe/2013 Non-Performing Loan Report” (Ernst & Young)

Content: Introduction

*Current state of leverage in CRE – “weaving gold from straw;”
*Distressed environment – Sellers, Sponsors, Assets, Structures; and
*Valuation and its effect on leverage and workout dynamics

Session 2 – Tuesday September 13, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session: Case Study - Falcon Park
Content: Analysis and Valuation of a Secondary-Market Mortgage (1 of 2)

*Review of hypothetical loan file;
*Valuation of underlying collateral; and
*Sensitivity analysis in a non-stabilized environment

NOTE: Tuesday September 20, 2015 – Class is moved to back-to-back Sessions 5/6 on Tuesday October 18, 2016 (detailed below)

Session 3 – Tuesday September 27, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session: Case Study - Falcon Park; “Why Capital Markets Matter” (Third Way)

Content: Analysis and Valuation of a Secondary-Market Mortgage (2 of 2)

*Valuation of a sub-performing note;
*Nomenclature and methodology of secondary-debt trading; and
*Framework of analyzing a potential special-situation investment

Session 4 – Tuesday October 4, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session: Wilmer Hale detailed loan workout course book

Content: CRE Workouts – the Borrower’s and the Lender’s Perspective

*Basic objectives;
*Concerns and considerations: Lender/Borrower/JV Partner-related; and
*Foreclosures and deeds-in-lieu of foreclosure

GUEST(S): Doug Burton and/or Keith Barnett – Partners, Wilmer Hale

NOTE: Tuesday October 11, 2016 – Class is moved to back-to-back Sessions 10/11 on Tuesday November 22, 2016 (detailed below)

Session 5 (back-to-back session) – Tuesday October 18, 2016 2:00p – 4:00p; location to be confirmed

Advance Reading: Check course platform prior to session: Case Study - Ariel Apartments; Ariel Apartments assignment (Assignment #1) due at beginning of class session; Investment Committee Memo/Final Exam proposals due at beginning of class
Content: Live CRE workout case study – Ariel Apartments

*Valuation of underlying collateral; 
*Concerns/considerations from borrower/lender/JV partner perspectives; and
*Live negotiations and workout discussion among the class

Student Case Protagonists and Q&A

Study teams will be pre-selected to assume the roles of borrower, lender, and JV partner in a live workout case study. The case will present a host of valuation, negotiation, and resolution features that provide real-world perspectives to build upon the content presented in prior sessions.

All students will need to prepare for the case ahead of the session along with submission of Assignment #1. Students not selected as study team protagonists should expect to be cold-called during the session as part of the cases and will be graded on participation.

Session 6 (back-to-back session) – Tuesday October 18, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session

Content: The Distressed CRE Environment – Regulatory Themes

A range of issues in the current distressed CRE environment will be explored, including:

*Current vs. historical regulatory environment;
*Commercial bank CRE exposure;
*Process of liquidating problem loans from financial institution balance sheets; and
*Valuation of distressed CRE assets

GUEST: Sara Kelsey – Former General Counsel of Federal Deposit Insurance Corp. (FDIC)

Session 7 – Tuesday November 1, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session: Case Study - Spinnaker Place; Spinnaker Place assignment (Assignment #2) due at beginning of class session

Content: Live CRE workout case study – Spinnaker Place
*Valuation of underlying collateral;
*Concerns/considerations from borrower/lender/JV partner perspectives; and
*Live negotiations and workout discussion among the class

Student Case Protagonists and Q&A

Study teams will be pre-selected to assume the roles of borrower, first mortgage lender, mezzanine lender, and JV partner in a live workout case study. The case will present a host of valuation, negotiation, and resolution features that provide real-world perspectives to build upon the content presented in prior sessions.

All students will need to prepare for the case ahead of the session along with submission of Assignment #2. Students not selected as study team protagonists should expect to be cold-called during the session as part of the cases and will be graded on participation.

Session 8 – Tuesday November 15, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading: Check course platform prior to session: Bankruptcy reading materials
Content: Introduction to Bankruptcy (1 of 2)

*Overview of Chapter 11 processes and principles;
*Exclusivity, DIP financing, absolute priority, plans of reorganization, role of creditors, and type of bankruptcy;
*Maximizing value across several constituencies; and
*Application of learning to introduce N Cubed case

GUEST: Avi Friedman – Partner, Davidson Kempner Capital Management

Session 9 (back-to-back session) – Tuesday November 22, 2016 2:00p – 4:00p; location to be confirmed

Advance Reading: Check course platform prior to session; Case Study or Topical Research – TBD; “Picking Up the Pieces” (Katten Muchin Rosenman)
Content: Case Study – TBD

*Distressed and Non-Performing Loans (NPL’s) – strategic, legal, and valuation considerations; and
*Control-based strategies (“loan-to-own”)
Session 10 (back-to-back session) – Tuesday November 22, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading:  Check course platform prior to session: Bankruptcy reading materials; Case Study – TBC; TBC assignment (Assignment #3) due at beginning of session

Content:  Introduction to Bankruptcy (2 of 2)

*Trading nomenclature and glossary of terms for distressed debt investing;
*Discussion of signs of early distress, types of securities, valuation methods, debt capacity, trading conventions, and the market set up; and
*Interactive case discussion

GUEST:  Avi Friedman – Partner, Davidson Kempner Capital Management

Session 11 – Tuesday November 29, 2016 4:00p – 6:00p; 200 Fayerweather

Advance Reading:  Check course platform prior to session: Hidden Flaws in Strategy (McKinsey); Scrooge McDucks (PIMCO); The Financial Crisis Five Years Later (US Dept. of the Treasury)

Content:  Course conclusion:

*Summary of key materials;
*Discussion of final project prior to submission; and
*Careers in non-traditional real estate investing

Sessions 12 & 13 (back-to-back sessions) – Tuesday December 6, 2016 2:00p – 6:00p; location to be confirmed (class date may change subject to classroom availability – to be confirmed)

FINAL EXAM – INVESTMENT COMMITTEE PRESENTATIONS

Students will work in their pre-designated study teams to devise a detailed Investment Committee Memorandum on a proposed investment within the Distressed CRE space. Study teams must chose a specific investment opportunity within the topics covered in the course and “pitch” the idea with substantiating valuation, market research, structural, legal, and other considerations. Study teams must submit their proposed investment idea at the beginning of Session 6 and will receive feedback from Prof. Sheets promptly thereafter. The professor is
able to recommend investment ideas, or students can devise their own. All investment topics must be cleared in advance.

Study teams should demonstrate an ability to defend their position, discuss risk and downside factors, and present cohesive and succinct quantitative and qualitative evidence to support their rationale. Exhibits to the memo would be expected.

The Final Exam will be in “open notes” format, whereby study teams are free to use any resources to complete the exam.

An in-depth live presentation of the Investment Committee Memo will be made by each study team on the date of the Final Exam in front of the entire class and, possibly, as well as a panel of prominent investors within the Distressed and Alternative CRE space. All students within each study team are expected to present for their pro-rata share of time for each presentation.

It is strongly encouraged that students refresh themselves with material presented in all of the sessions prior to completing the Investment Committee Memo. The exam is intended to be comprehensive.