

**COURSE SYLLABUS**  
**PRIVATE EQUITY DEVELOPMENT – HOTEL FOCUS**  
**SPRING A – 2020**  
**COURSE NUMBER PLA6583**  
**1.5 CREDITS**

**DAY:** Thursday, from January 23<sup>rd</sup> to March 5<sup>th</sup> 2020  
**TIME:** 1-3pm (Note that the class on March 5<sup>th</sup> will be 12-3pm)  
**ROOM:** 209 Fayerweather

**Instructor:** Rani Gharbié  
 Email: rani@cedarfunds.com

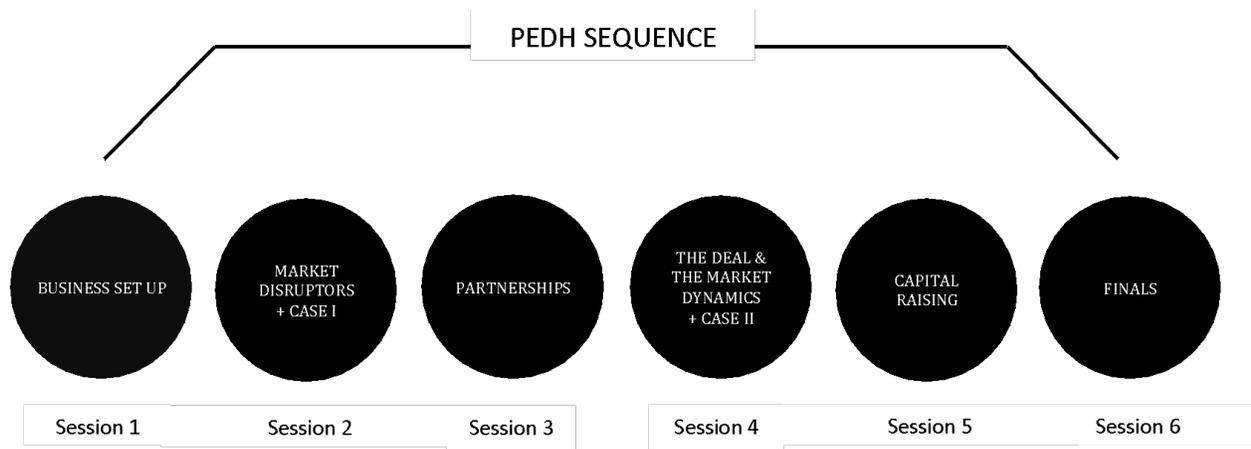
**Class assistant:** Jonathan Hong  
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**I. COURSE DESCRIPTION**

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

The 'Private Equity Development: Hospitality Focus' course discusses the rapidly evolving real estate investment and development industry, and addresses the shifting perception of capital partners. The course covers major facets of creating a private equity development business while focusing on hotel development projects. The course discusses partnerships, fund raising, syndication of equity on one hand, and elaborates on key industry disruptors around the rise of technology and sharing economy on the other - 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-session course 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 / sharing economy on hotel real estate investment (i.e. booking.com vs hilton.com). Impact of AirBNB on Hotel and Residential stock - a NYC/US 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 Pod Hotels, Virgin Hotels, Yotel, Kimpton, Edition, Ace Hotels etc.
- Think of critical industry trends – i) Lending institution’s tolerance of independent hotels ii) 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: A pop quiz to be completed individually in class without notice. The quiz is intended to consolidate the student’s advancement in learning the 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. 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 hard copy of your submissions and/ or working papers available for reference during the discussion. Hard copy 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 (marked in green herein). 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 23<sup>rd</sup>, 2020**

#### **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 30<sup>th</sup>, 2020*

### **Class 2: February 6<sup>th</sup>, 2020**

#### **Market Disruptors: Sharing Economy and its impact on Real Estate Investing**

#### Class 2 Part 1:

- This session will cover the emergence of industry disruptors ranging from Crowdfunding to trends in hotel brands, design, massing, layouts, amenities
- We will review brand decks and review investment cases of brands such as Pod Hotels and Virgin hotels.
- 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](http://booking.com) vs. [hilton.com](http://hilton.com))
- Close look at [Airbnb's](http://airbnb.com) quantitative impact on the hotel industry
- Comparative performance analysis of hotel chains vs independent hotels at various stages in the cycle.

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

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

- Individual Case Study available on Harvard portal - "Structuring real estate deals: an investor's perspective", Arthur Segel. This case Addresses the following questions: What are the portfolio-level implications? What are the asset-level characteristics? How do I invest? With whom do I invest? What do I get for my investment? What protections do I have? When and how do I get out?

#### Required Reading: (in courseworks)

- Selling Sleep – Everything Is Conversing, Morgan Stanley Global Hotels, May 2019

- How Fundrise, crowdfunding's most celebrated startup, cherry-picks its numbers, *The Real Deal*, Dec 2015
- Life House Raises \$30 Million for Next-Gen Hotel Management, *kift*, Jan 2020
- Harbor Tokenizes Real Estate Funds Worth \$100 Million on Ethereum, *CoinDesk*, Sep 2019
- Future of US Millennial Travel Report – *Resonance* 2018

### **Class 3: February 13<sup>th</sup>, 2020**

#### **Partnerships: Creating Sustainable Set Up and Credible Framework**

- 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 (In Coursework):

- Vicky Ward “The Liar’s Ball”, “The Rigged Bid” (chap 3), 2014
- US Hotel Cap Rates Report, HVS, Jan 2019
- Hotel Horizons, CBRE Hotels, 2019
- LOI\_Brand Management\_Redacted
- Cedar Funds Investment Memorandum (Redacted)

#### **Guest Speaker Jane Kim (CBS MBA’13), Vice President, Business Development, *Crescent Hotels & Resorts***

*Crescent Hotels & Resorts* manages a diverse portfolio of properties throughout the United States and Canada in both urban and resort markets across the upscale, upper-upscale and luxury segments.

### **Class 4: February 20<sup>th</sup>, 2020**

#### **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
- JLL Hotel Investment Banking-Construction Financing Overview,2017

**Guest Speaker Tyler Henritze:** Senior Managing Director, Head of US Real Estate Acquisitions, *Blackstone*.

**Class 5: February 27<sup>th</sup>, 2020**

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

- This class will assess a variety of equity and debt sources including Private Equity firms, Sovereign Wealth Funds, Banks/Financial Institutions 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 with the real estate cycle and with the rise of alternative hotel products such as micro hotels, independent hotels, co-working/co-living spaces.

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.
- We will also discuss the strategy behind the latest mergers and acquisition in the hotel space
- A look at the record sale of some trophy hotels in NYC, London and Hong Kong etc.

Required Reading:

- Fund Formation / Capital Raising Term Sheet – NYC, NY - (CourseWorks)
- Hotel Investment Outlook, Jones Lang Lasalle, January 2017 (CourseWorks)
- Hotel Transactions Update, CBRE, Oct 2015 (CourseWorks)
- JLL\_CBRE Hotel Transaction (CourseWorks)
- Commercial Mortgage Alert\_list of lenders, May 2015 (CourseWorks)
- Waterfall Fee Benchmarks, Real Estate Alert, April 2015 (CourseWorks)

**Class 6: March 5<sup>th</sup>, 2020****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.

**Required Reading:**

- CBRE hotels accommodation industry outlook 2016.2017(courseworks)
- Canadian Hotel Investment Report, Colliers International 2016 (CourseWorks)
- STR monthly Hotel Review, STR, December,2016 (Courseworks)

**INVESTMENT PANEL FOR THE FINAL EXAM - Under Review.**

1/ Timothy Hodes, Principal at Wheelock Street Capital, Head of Hotel Acquisitions

2/ Kevin Davis, Managing Director, Capital Markets - Hotels and Hospitality, Jones Lang LaSalle

3/ Nicolo Rusconi, President of BLVD Development

## V. PROFESSOR RANI GHARBIÉ'S BIO

Rani Gharbié is the Head of Acquisitions & Development for The Pod Hotels, a BD Hotels company, where he is responsible for identifying potential investment opportunities and working closely with capital partners and strategic investors to increase equity positions and funding for future projects for the brand. Formerly, he oversaw development and acquisitions for North America at Virgin Hotels. Prior to that, Rani was the Managing Director and Founder at Cedar Funds, a New York City based development and investment firm with a focus on progressive hotel and real estate assets, as well as regional Director of Development with InterContinental Hotels Group (IHG), where he was responsible for actively expanding IHG's premier hotel brands including InterContinental, Hotel Indigo and Holiday Inn. In this position, he oversaw and contributed to the growth of 20 hotels worth over \$1.8B in real estate value.

Rani Gharbie is an Adjunct Professor at Columbia GSAPP's Masters in Real Estate Development program, where he teaches Private Equity Development, Hotel Focus. He holds a Master's Degree from the same program, an MBA from the HEC Business School in Montreal, a Bachelor degree in Hotel Management from the Glion Hotel School in Switzerland, and a Certificate in Hotel Real Estate Investments and Asset Management from Cornell University. Rani is a regular guest speaker at key industry conferences and is an avid traveler, runner, cyclist, golfer and Vinyasa Yogi. He currently resides in New York City with his wife Alisha and their son, Reece.

