

COURSE SYLLABUS
PRIVATE EQUITY DEVELOPMENT – HOTEL FOCUS
SUMMER B – 2022
COURSE NUMBER PLA6583
1.5 CREDITS

DAY: Thursday, from March 2nd to April 20th 2022

TIME: 4-6pm ET

COURSE FORMAT: Per School Guidance

ROOM: 209 Fayerweather

Instructor: Rani Gharbié
Email: rani@cedarfunds.com

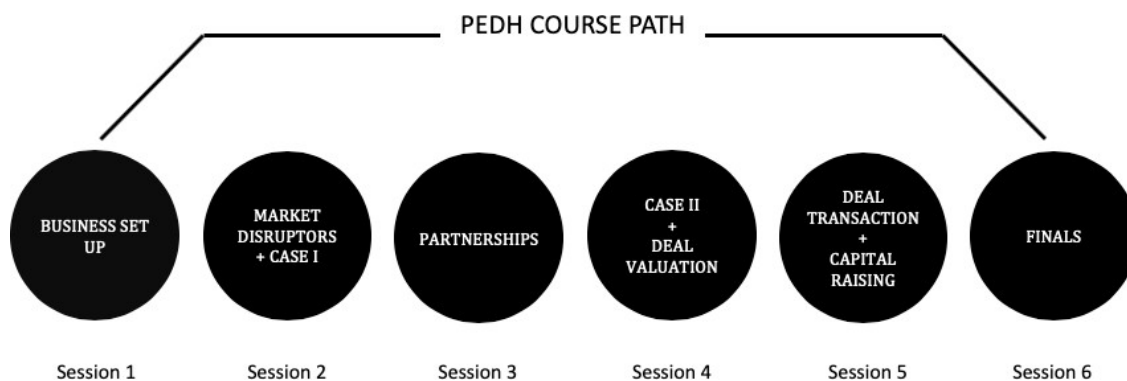
Class assistant: Jason Lee
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I. COURSE DESCRIPTION

“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: Hotel 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 and conversion / adaptive reuse 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 - home / office sharing, online travel agencies, crowdfunding and other disruptors. 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 Canvas 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 Canvas, Columbia Library and Harvard library, as relevant.

Students should consult Canvas 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

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 (Canvas)
- JV term sheet (Canvas)

Class 2

Market Disruptors: Sharing Economy, Global Pandemic and their impact on Hotel 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 vs. 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.
- We will also discuss the disruptive nature of the COVID 19 global pandemic

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 Canvas)

- 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

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):

- Cedar Funds Investment Memorandum (Redacted)
- Sample Letter of Intent, Hotel Brand Management Redacted (Canvas)
- Hotel Cap Rates Hold Steady Values Under Pressure, HVS, Jan 2019 (Canvas)
- Horizons Report NYC, CBRE Hotels, Q3 2019

Guest Speaker 2022: Under Review

Guest Speaker 2021: 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

Case II + Deal Valuation

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 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:

- Vicky Ward “The Liar’s Ball”, “The Rigged Bid” (chap 3), 2014
- Executive Summary, Sample Only (Redacted)
- Acquisition Terms Sheet for the development of 60 Water Street, Financial District
- Opportunity Zones Brief, Goldman Sachs, Dec 2018

Guest Speaker 2022: Under review

2020 guest speaker: Tyler Henritze: Senior Managing Director, Head of US Real Estate Acquisitions, *Blackstone*.

Class 5

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

- We will also discuss residual land value / residual deal value in 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
- 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:

- JLL Hotel Investment Banking-Construction Financing Overview, 2020
- Special Report Fund Universe Growing Rapidly late in the Cycle, Real Estate Alert, Mar2019
- Sample GPLP Term Sheet– Cedar Funds
- Waterfall Fee Benchmarks, Real Estate Alert, April 2015
- Frozen on the Rates: Impact of Interest Rates on Capitalization Rates, Paul Mouchakaa, Managing Director, Morgan Stanley Real Estate, January 2014

Class 6

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 COMMITTEE PANEL FOR THE FINAL EXAM – 2022 Under Review.

Investment Committee 2021:

1. Gilda Perez-Alvarado, Global CEO at JLL Hotels & Hospitality
2. Krystal England, Managing Director at Canyon Partners
3. Roger Plourde, Principal at Turnbridge Equities

Investment Committee 2020:

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 an Adjunct Assistant Professor at Columbia GSAPP's Master of Science in Real Estate Development program, where he teaches Private Equity Development, Hotel Focus. He holds a MSRED degree from the program; an MBA from the HEC Business School, Canada; a Bachelor degree in Hotel Management from Glion Hotel School, Switzerland; and a Certificate in Hotel Real Estate Investments and Asset Management from Cornell University, New York.

Professor Gharbié is Senior Vice President of Acquisitions at Life House where he spearheads the growth of their Kayak Hotels' partnership. Life House is a tech enabled hotel operator, and Kayak Hotels is part of Booking Holdings, the largest travel company by market cap (BKNG: \$100b). Prof. Gharbié is also a Partner and Head of Hotel Investing at GEI, a NYC-based special situations real estate investment platform.

Throughout his career, Prof. Gharbié oversaw and contributed to the growth of 20 hotels worth over \$1.8B in real estate value. Formerly, Prof. Gharbié oversaw development and acquisitions for Pod Hotels and Virgin Hotels in North America. Prior to that, he launched Cedar Funds, a New York City based development and investment firm with a focus on progressive hotel & real estate assets.

Prior to launching Cedar Funds, Prof. Gharbié worked in key positions in the hotel and real estate industries. He was 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. Prior to IHG, Prof. Gharbié worked for Jones Lang LaSalle where he advised key clients on real estate investment and development projects valued at \$4.2B.

Prof. Gharbié is also a regular guest speaker at key industry conferences. He has lived on three continents and speaks three languages. He is an avid traveler, runner, cyclist, golfer, and vinyasa yogi. He lives in New York City with his wife Alisha and their son, Reece.