B8469 Distressed Real Estate Investing Spring 2024

Tuesdays (A term): 6:00 - 9:15pm Geffen Hall 420

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| Adjunct Professors  DavidSherman ’82  [dms125@mail.gsb.columbia.edu](mailto:dms125@mail.gsb.columbia.edu) ;  Ron Kravit  [rkravit@cerberus.com](mailto:rkravit@cerberus.com)  Office Hour  By appointment Fridays at 2:30 PM | Course/Teaching Assistants |

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 and REQUISITES

The focus of this advanced real estate course is to understand what it means to be in a “distressed” situation or environment and to learn to analyze, underwrite and structure investment opportunities in this type of environment. Students will learn to: (i) value and model assets that require significant measures to stabilize; (ii) understand complex balance sheet structures; and (iii) develop strategies to successfully negotiate, structure and close complex distressed investments. Particular emphasis throughout the course will be placed on understanding risk and on presenting conclusions concisely and clearly.

Real estate is a long-lived asset that depends on attractive financing, rental increases, and long-term appreciation to maintain its value. However, shocks to the rental or capital markets can lead assets to trade at appreciable discounts due to illiquidity, negative cash flow, tenant bankruptcies, over-leverage, lack of financing to purchase or rollover debt, or uncertainty about the future. These factors lead to the inability of management to meet obligations, uncertainty about valuations, and sometimes, few potential buyers.

This class will help provide knowledge in key areas to help build expertise that can be used to purchase distressed real estate assets. For example, it is important to understand debt structures, as many assets are acquired when a property is unable to meet its borrowing obligations and a mezzanine lender or CMBS special servicer is in a position to determine the future of an asset. Similarly, when assets are suffering from key problems, it is even more critical to be able to understand and manage risk and conduct appropriate due diligence.

Distressed real estate investing has been a theme that has endured over time. Capital flows can be volatile, and lenders and investors move in and out of markets. Real estate continues to face disruption due to advances in technology and changes in the way people live and work, a pattern that started prior to COVID. Online shopping has fundamentally shifted how we interact with retailers and will continue to do so. The potential of driverless cars and trucks may fundamentally impact property values and how people value location. Improvements in video conferencing technology and increasing interest in “work from home” have changed demand patterns for traditional office space, at least in the near term. And as sea levels rise and the climate changes, people will need to (re)consider where and how they live and work. In short, disruption and thus distress may well be a constant theme in the years ahead.

B6300 Corporate Finance, B8306 Capital Markets, B8331 Real Estate Finance and B8453 Real Estate Debt Markets are prerequisites; B8332 Real Estate Transactions is highly recommended.

# REQUIRED COURSE MATERIALS

Readings and Assignments for the course will be posted on Canvas. Required work for each session will be clearly identified on the syllabus or announced via email and on Canvas.

# CONNECTION TO THE CORE

**Core Courses:** The course content will utilize, build on, and extend concepts covered in the following core courses:

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| **Core Course** | **Connection with the Core** |
| Corporate Finance | 1. Time value of money 2. Risk 3. CAPM 4. Modigliani & Miller Theorem 5. Arbitrage pricing and the law of one price 6. Efficient Markets 7. Financial frictions |
| Managerial Economics | 1. Maximization and marginal analysis 2. Complex decision‐making under uncertainty 3. Market competition and equilibrium |
| Managerial Statistics | 1. Statistics and data analysis 2. Conditional probability 3. Modeling uncertainty |
| Global Economic Environment I | 1. Inflation and monetary policy 2. The business cycle 3. The role of financial markets in the economy |

Students will be expected to have mastered these concepts and be able to apply them in the course.

# CLASSROOM NORMS AND EXPECTATIONS

Grading will be based on Class Participation (20%), Group Cases (45%), and Final Case (35%).

Readings and Assignments for the course will be posted on Canvas. Required work for each session will be clearly identified on the syllabus or announced via email and on Canvas.

Reference book: *Distress Investing: Principles and Technique* by Martin J. Whitman and Fernando Diz. The book is not required reading, but it can help enhance material covered in class.

Form a group: You can form groups prior to the start of class or on the first day of class. Groups should have 4-5 members (groups greater than 5 will not be allowed) and group members should join together via Courseworks. Groups may be asked to present cases in class.

Homework Assignment: To be completed individually. Students may discuss homework assignment with other classmates or students in a general manner. However, the sharing of written or computer work product between students for individual assignments is prohibited.

Group Cases: Cases must be submitted prior to the beginning of class—time to be listed in the syllabus. Format and page limits may be provided with each Case and will be strictly enforced. Students should be prepared to discuss all Cases in class. Group members may discuss Cases with other classmates or students outside their Group in a general manner.

However, the sharing of written or computer work product between students outside a group is strictly prohibited.

Class Participation: Questions are encouraged to clarify what we are discussing. In addition, you and your fellow students bring valuable perspectives to the class that can benefit everyone. Please remember that it is important that everyone has an opportunity to participate, so no one should dominate the conversation and please be respectful of other’s comments. Constructive comments in class will increase your participation grade, while consistently bad or

irrelevant participation or participation that negatively affects others will decrease your grade. Absences or late arrivals will negatively impact your participation grade.

Honor Code: Students are expected to follow the honor code at all times, including rules for individual and group work. Violations of the honor code will result in referral to the Student Leadership and Ethics Board. See: <http://www8.gsb.columbia.edu/honor/resources>.

**COURSE ROADMAP/SCHEDULE *(schedule and speakers subject to change)***

**Session 1: January 23 – Introduction To Distressed Real Estate Investing**

* 6:00-6:25 – Class overview – David and Ron summarize their backgrounds and lay out the structure for the rest of the course and include discussion of the final case and the need to form groups. (David and Ron. No deck.)
* 6:25-6:45 – The history of distress over the past 30 years, diverse causes and common themes. (David lecture with Ron joining in. Lecture deck 1.)
* 6:45-7:30 – Review of real estate debt markets**. Alex Russo and Erika Jobson – Lazard. (Lazard to provide deck)**
* 7:30-7:45 Break.
* 7:45-8:30 - In class mini-case discussion: Palm Springs Hotel. **Joe Smith, Founder – 1754 Properties**. (Ash to post the case materials in advance.)
* 8:30-9:15 Discussion regarding how to approach the analysis of a complex real estate situation and how to structure an investment recommendation. (David lecture with Ron joining in. Lecture deck 2.)

**Session 2: January 30 – Underwriting Distressed Assets And Evaluating Complex Balance Sheets**

* 6:00-6:45 – Principles of distressed real estate investing. Key factors to be considered: the asset; the capital structure; the players around the table; the situation. Current vs. stabilized value. Underwriting risk. (Ron lecture with David joining in. Lecture deck 3.)
* 6:45-7:45 – Case discussion: H Street. **Gil Tenzer, Contrarian Capital.**
* 7:45-8:00 Break
* 8:00-8:45 Understanding the lender’s perspective: **Laurie Golub and Samir Tejpaul, Square Mile Capital.**
* 8:45-9:15 – Review of debt structures. Overview of tranched debt vs traditional whole loan debt; rights and obligations of tranche holders vis a vis other junior/senior tranches and vis a vis the equity; in the money/out of the money and the concept of fulcrum security; what happens in bankruptcy; etc. (Ron lecture with David joining in. Lecture deck 4 – needs some editing to eliminate redundancy with Lazard deck.)
* Homework due: Group case write ups to be submitted at the start of the class.

**Session 3: February 6 – Approaching Distressed Investments Strategically**

* 6:00-6:30 – Review of concepts covered up to this point.
* 6:30-7:30 – Managing a distressed process. **Ed Adler, Co-Founder – Silver Eagle Advisors. (We need to speak with Ed to understand what deal/case he will be discussing, materials to distribute (if any), etc.)**
* 7:30-7:45 Break
* 7:45-8:30 – Introduction to distressed strategy and negotiation. Who are the players around the table? What are their motivations? What are the dynamics of the situation – debt defaults, capital requirements? What is the best “entry point” for an investment in the deal? (Ron and David lecture. Deck TBD.)
* 8:30-9:15 – Review
* Managing **Session 4: February 13 – Distressed Investing Beyond The Basics**
* 6:00-7:30 Case discussion: Convene. Student groups present a summary of their analysis and conclusions.
* 7:30-7:45 Break
* 7:45-9:15 Discussion and review of the Convene Case. **TBD**
* Homework due: Group case write ups to be submitted at or prior to the start of the class.

**Session 5: February 20 – Distressed Investing In Non-US Markets**

* 6:00-6:30 – Review of similarities and differences across global markets. (David lecture with Ron joining in.) Europe.
* 6:30-7:30 – Mini case: Distressed investing in Europe. **Saul Goldstein, CEO – Activum SG Capital**
* 7:30-7:45 Break
* 7:45-8:45 – Mini case: Distressed investing in Japan. **J-P Toppino, Group President and Managing Partner Real Estate –PAG.**
* 8:45-9:15 – Discussion of final case; review of key concepts.

**Session 6: February 27 – Final Class/Case Presentations**

* 6:00-7:00 – TBD
* 7:00-7:15 Break
* 7:15-8:45 Class group presentations and discussion of final case. (David lecture with Ron joining in.)
* 8:45-9:15 Open Q&A for any final class questions; course review forms
* Final case review: New York Office Opportunity
* Note: Individual final case write ups

# ASSIGNMENTS

**All assignments are individual work unless otherwise specified.** All assignments are to be submitted hard copy or email at the start of class on the due date. If you are late, do not disrupt class to hand in your assignment.

Assignments submitted after the specified time will be marked “late” and will be given partial credit. For group assignments, one submission from each group should be submitted with the names of the group’s members clearly stated on the first page. PLEASE E-MAIL ALL ASSIGNMENTS TO THE PROFESSORS **AND** THE CAs.

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.

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| **Type** | **Designation** | **Grade** | **Preparation of submission** | **Discussion of Submission\*** | **Discussion of Concepts\*\*** |
| A | Group Work | Same grade for all group  members | By the group | Permitted to discuss (within group) | Permitted |
| B1 | Individual w/ Discussions of Concepts and  Submission | Individual grade | Individual preparation | Permitted to discuss; sharing solutions or submission files is not  allowed | Permitted |
| B2 | Individual w/ Discussions of Concepts Only | Individual grade | Individual preparation | Not permitted to share/discuss solutions or submission | Permitted |
| C | Individual | Individual grade | Individual preparation | Not permitted to share/discuss solutions or submission | Not permitted\*\*\* |

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

# 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](http://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.](http://sexualrespect.columbia.edu/gender-based-misconduct-policy-students)