

Columbia University - MSRED
Investment Strategies in a Distressed Environment
SYLLABUS – DRAFT AND SUBJECT TO CHANGE as of 08/15/13
Prof. Donald D. Sheets

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. All inquiries related to enrollment should be submitted to Jessica Stockton via email to jas215@columbia.edu.

IMPORTANT NOTE: Several class sessions are held on varying days and times throughout the semester. All students should review the syllabus prior to applying for registration in the course to ensure that they can adhere to the attendance policy.

Administrative

Office Hours:	By Advance Appointment
Contact:	646/593-0155 mobile dds2134@columbia.edu or donsheets@yahoo.com <i>Email is the best means to reach me</i>
Teaching Assistant:	TBD TBD Email Address
Grading:	20% Participation and Attendance 40% Assignments #1, #2, #3, and #4 (weighting @ 10% each) 40% 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 both attendance and also cold-calling throughout each class. Students should come to each class fully engaged and prepared.

Professor Biography

Donald Sheets is a Senior Principal at Square Mile Capital Management, a \$1.9 billion AUM real estate private equity fund. He leads and trains the transaction and special servicing team and also identifies, structures, and negotiates non-traditional commercial real estate investment opportunities. During his tenure with Square Mile, Mr. Sheets has sourced, underwritten, and closed the acquisition of over 130 mid-balance commercial mortgages across several bespoke transactions aggregating approximately \$2.0 billion in outstanding principal balance.

Among other bespoke secondary debt investments, in 2010 and 2011 Donald sourced, negotiated, executed, and presently manages 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-leads each of the two ventures and serves as the primary interface to the FDIC and over 120 community and regional participant banks. Also in 2011, Mr. Sheets sourced, negotiated, executed, and presently oversees 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.

Over the course of the past 24 months, Donald pioneered a proprietary financing mechanism that produced for the first time since the RTC Era a liquidating trust pass-through securitization trust secured primarily by performing and sub-performing commercial mortgage debt. He now has led and completed two of these capital markets transactions in the marketplace.

Prior to his present role at Square Mile, Mr. Sheets initiated a special-situation commercial real estate investment platform and built a team at Davidson Kempner Capital Management, an \$18 billion AUM multi-strategy hedge fund, in its New York office. While at DKCM, Donald sourced, underwrote, and managed over \$1.1 billion in risk-based capital exposure across dozens of transactions, a vast majority of which were unleveraged. Prior to DKCM, Mr. Sheets worked for The Carlyle Group, EastBanc, and Starwood Urban Investments.

Mr. Sheets has over fourteen years of leadership and property acquisition, turnaround, asset management, and restructuring experience across a variety of capital structures, asset types, and geographies. Over his career, he has successfully recruited, trained, and managed multiple teams of transaction and strategic asset management professionals. Donald has sourced and directly managed over \$3.4 billion in over 65 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. He has overseen all stages of the investment cycle including proprietary research, sourcing, execution, asset management and disposition with a profitable track record in the U.S., Canada, and Australia.

Mr. Sheets was appointed in 2009 as an Adjunct Assistant Professor at both Columbia University and New York University, where he developed and currently teaches the first graduate-level distressed real estate investing coursework within each university's curriculum.

Donald received a BBA in Accounting and Real Estate Finance from The George Washington University *magna cum laude* and received an MBA from Harvard Business School. Mr. Sheets serves as a Member of the Urban Land Institute's Public-Private Partnership Council and is appointed as a Member of the Board of Directors of Educational Housing Services.

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

Session 1 – September 12, 2013 11:00a – 1:00p (makeup session for 9/9/13 class); 200 Fayerwether

Advance Reading: Check course platform prior to session; Moody's multifamily proforma underwriting case materials

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 – September 16, 2013 2:00p-4:00p (revised class time for GSAAP scheduling conflicts); 200 Fayerwether

Advance Reading: Check course platform prior to session; Falcon Park case materials

Content: Analysis and Valuation of a Secondary-Market Mortgage

- *Review of hypothetical loan file;
- *Valuation of underlying collateral;

- *Valuation of underlying note; and
- *Framework of analyzing a potential investment

Session 3 – September 30, 2013 6:30p-8:30p; 200 Fayerwether

Advance Reading: Check course platform prior to session; Wilmer Hale loan workout materials

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: Doug Burton/Keith Barnett – Partners, Wilmer Hale

Session 4 – October 3, 2013 4:00p-6:00p (makeup session for 9/23/13 class); 200 Fayerwether

Advance Reading: Check course platform prior to session; Ariel Apartments case study; Ariel Apartments assignment (Assignment #1) due at beginning of class session

Content: Live CRE workout case study – Ariel Apartments

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

Session 5 – October 7, 2013 6:30p-8:30p; 200 Fayerwether (prospective students visit)

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

Content: Student Case Protagonists and Q&A

Several students will be selected at random to assume the roles of borrower, lender, JV partner, and servicer protagonists in a 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 protagonists should expect to be cold-called during the session as part of the cases and will be graded on participation.

Session 6 – October 14, 2013 6:30p-8:30p; 200 Fayerwether

Advance Reading: Check course platform prior to session; proposed composition of student groups for Investment Committee Memo/final exam due at beginning of class

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 7 – October 21, 2013 6:30p-8:30p; 200 Fayerwether

Advance Reading: Check course platform prior to session; proposed Investment Committee Memo/Final Exam proposals due at beginning of class; N Cubed 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 8 – October 28, 2013 6:30p-8:30p; 200 Fayerwether

Advance Reading: Check course platform prior to session

Content: Secondary-Market Mortgage Underwriting, Valuation, and Asset Management

- *Distressed and Non-Performing Loans (NPL's) – strategic, legal, and valuation considerations; and
- *Control-based strategies (“loan-to-own”)

Session 9 – November 11, 2013 6:30p-8:30p; 200 Fayerwether

Advance Reading: Check course platform prior to session; Busse Place case study

Content: Busse Place case study (1 of 2)

- *Market dynamics in a challenged economic environment;
- *Lease economics and NPV analysis; and
- *Collateral valuation techniques from multiple perspectives

Session 10 – November 18, 2013 4:00p-6:00p (back-to-back session); 200 Fayerwether

Advance Reading: Check course platform prior to session; Busse Place case study; Busse Place assignment (Assignment #4) due at beginning of session

Content: Busse Place case study (2 of 2)

- *Workout scenarios in the context of a CMBS loan and a portfolio loan; and
- *Pitch of resolution outcome with opaque facts and proforma analysis

Session 11 – November 18, 2013 6:30p-8:30p (back-to-back session as make-up for 11/25/13 class); 200 Fayerwether

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 12 – December 2, 2013 6:30p-8:30p; 200 Fayerwether

Advance Reading: Check course platform prior to session

Content: Course conclusion:

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

Session 13 – December 9, 2013 4:30p-8:30p; 200 Fayerwether (additional time to accommodate presentations – exact start/end times will be confirmed later in the semester)

FINAL EXAM – INVESTMENT COMMITTEE PRESENTATIONS

Students will work in groups to devise a detailed Investment Committee Memorandum on a proposed investment within the Distressed CRE space. Student groups 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. Student groups must submit their proposed investment idea at the beginning of Session 7 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.

Student groups 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 students 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 student group on the date of the Final Exam in front of the entire class as well as a panel of prominent investors within the Distressed and Alternative CRE space. All students within each group 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.