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Digital Writing (ENGL 2730)  
Trivia Questions and Annotated Bibliography  
Topic: Real Estate Private Equity

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## Trivia Questions

1. Which of the following is a return metric typically used to assess an asset's return potential and involves reviewing the annual operating income relative to the capital invested for the purchase of a real estate asset?
  - a. Interest Rate
  - b. Cap Rate
  - c. Revenue
  - d. Net Income
2. All of the following are factors that are most frequently considered when reviewing a multifamily investment except
  - a. Vacancy Rates
  - b. Cap Rate
  - c. LIRR
  - d. Horizontal Integration
3. In January 2016, what two firms co-invested to acquire an institutionally owned, Class A multifamily real estate portfolio with over 23,000+ units across 70+ garden and mid-rise assets?
  - a. Starwood Capital and SOF X
  - b. Magnolia Capital and Goldman Sachs
  - c. Resource REIT and BREIT
  - d. Brookfield Asset Management and The Carlyle Group
4. What is the real estate private equity firm that operates a portfolio with multifamily, mixed-use, and industrial assets with close to \$29 Billion in AUM?
  - a. Perella Weinberg Partners
  - b. GID
  - c. Oaktree Capital Management
  - d. Invesco Real Estate
5. Which of the following types of real estate investment opportunities present the highest level of risk as well as the highest potential return (the higher the risk, the higher the potential return)?
  - a. Class A
  - b. Class B
  - c. Class C

## Annotated Bibliography

Banton, Caroline. "Interest Rates: Different Types and What They Mean to Borrowers." *Investopedia*. July 6, 2022. Web Accessed. February 13, 2023. <https://www.investopedia.com/terms/i/interestrate.asp>

In this article, Banton defines the term interest rate as a percentage of the principal, the amount loaned, that a lender charges a borrower. The term interest rate can also apply to the amount earned at a bank or credit union from a savings account or a certificate of deposit (CD).

Bowling, Lauren. "Net Operating Income (NOI): Definition and Formula." *Rocket Mortgage*. November 22, 2022. Web Accessed. February 13, 2023. <https://www.rocketmortgage.com/learn/net-operating-income>

In this article, Bowling explains that net operating income, or commonly referred to as NOI, is one of the most important measures for real estate investors to know how to correctly calculate. The article gives an overview of what NOI is, how it is calculated, what items are and are not factored into the formula, and how NOI is used in real-world scenarios. NOI is used to assess the profitability of a real estate asset after subtracting necessary operating expenses but before taking debt service and capital expenditures into consideration. Since depreciation is a non-cash expense and NOI is a cash metric, depreciation is also not factored into the equation for NOI.

Carrigan, Matt. "Class A vs. B vs. C Buildings: Commercial Real Estate Property Guide." *Deal Path*. November 16, 2022. Web Accessed. February 13, 2023. <https://www.dealpath.com/blog/class-a-class-b-class-c-property-class/#a>

In this article, Carrigan provides an overview on the three different classes that real estate assets fall under. These property classifications help investors understand the value and the risk profile of a real estate asset. Class A assets include top-quality buildings that are typically built within the last 15 years. However, certain assets maintain the Class A status even after the 15-year threshold through significant renovations that modernize the property and bring it in line with other modern assets in the market. Since Class B assets are older than Class A assets, Class B investment opportunities present relatively higher risk. Generally average in quality, most Class B assets don't offer the same luxurious amenities and are older than 15 years. Although these assets normally provide adequate facilities, they tend to be slightly out of touch and lack modern building finishes and upgraded amenities; hence, Class B assets generate average market rents. Class C assets are on the opposite end of the spectrum from Class A assets. Class C assets are at least 20

years old and in need of substantial capital investment for repairs and renovations; hence these assets normally collect lower-than-average rents.

Chen, James. "Capitalization Rate: Cap Rate Defined With Formula and Examples." *Investopedia*. April 19, 2022. Web Accessed. February 13, 2023. <https://www.investopedia.com/terms/c/capitalizationrate.asp>

In this article, Chen provides a thorough overview of the capitalization rate, also known as the cap rate in the world of real estate, and several examples of how cap rate is calculated. The cap rate indicates the rate of return that one can expect a real estate investment to generate. This return measure is computed by dividing the annual net operating income a property is expected to generate by the purchase price of the property or the total capital used to acquire the property. Expressed as a percentage, the metric is used to estimate the investor's potential return on an investment. The cap rate is also typically used as a comparison of the relative value of similar real estate investment opportunities.

"GID Announces Launch of Credit Platform." *PR Newswire*. October 14, 2022. Web Accessed. February 15, 2023. <https://www.prnewswire.com/news-releases/gid-announces-launch-of-credit-platform-301649701.html>

In this article, the author discusses the launch of real estate private firm, GID's credit division. In the trivia questions, I used the company background provided in this source for question #4. GID is a privately held, vertically integrated real estate firm that owns and operates a portfolio of multifamily, industrial, and retail assets and develops mixed-use projects in major U.S. markets. Currently, GID's existing and development properties are valued at over \$28.5 billion; in other words, the firm currently has close to \$29 billion in assets under management (AUM).

"Horizontal Integration." *Corporate Finance Institute*. December 22, 2022. Web Accessed. February 13, 2023. <https://corporatefinanceinstitute.com/resources/management/horizontal-integration/>

In this article, the author gives an overview of horizontal integration and explains how it is from vertical integration. Horizontal integration is a competitive strategy used to increase market power while minimizing cost per unit produced. Horizontal integration occurs when one firm acquires another firm operating within the same industry or producing the same line of products to increase the production of goods and services. As a result of this merger, companies may realize economies of scale, lower production costs, synergy in marketing, increased revenue, as well as other gains. Vertical integration

is another competitive strategy that involves one firm acquiring another firm operating in the production process of the same industry. However, this strategy involves supply chain synergies from a merger between upstream and downstream companies of the same product supply chain.

“Private Transactions.” *Starwood Capital Group*. N.d. Web Accessed. February 15, 2023. <https://www.starwoodcapital.com/investments/>

In January 2016, real estate private equity firm, Starwood Capital co-invested with SOF X to acquire an institutionally owned, Class A multifamily portfolio that included assets in South Florida, Denver, Washington, D.C., Seattle, and the Inland Empire in California. The portfolio included 72 garden and mid-rise assets with 23,262 units at the closing of the sale but operated as 66 distinct assets post closing. As a portfolio with Class A quality assets, the properties required minimal deferred maintenance. At its \$5.4 billion purchase price, the portfolio acquisition was the largest non-hotel acquisition in Starwood Capital’s history.

Rohde, Jeff. “What is Vacancy Rate and How Should You Calculate It?” *STESSA*. N.d. Web Accessed. February 13, 2023. <https://www.stessa.com/blog/vacancy-rate/>

In this article, Rohde defines vacancy rate in real estate and explains how vacancy rate is calculated, what normal vacancy rates are, and factors that affect property vacancy rates as well as why it is crucial to accurately calculate the vacancy rate for projections in a model. The vacancy rate is the percentage of rental income that is lost due to a property being unoccupied during the year. This could be in terms of time that a property is vacant during a year or in the form of a percentage of the total units that are vacant during a given year. Investors in real estate can use vacancy rate to assess the potential demand for a rental property.

“What is IRR in Real Estate?” *Feldman Equities*. N.d. Web Accessed. February 13, 2023. <https://www.feldmanequities.com/education/what-is-irr-in-real-estate/>

In this article, the author explains the importance of the Internal Rate of Return (IRR) and what the measure is used for. Of the various financial analysis metrics and ratios available to real estate investors, IRR is one of the most frequently used calculations. In real estate, IRR incorporates key investment criteria to identify if a property meets the specific goals of an investor. However, this metric can be used for other non-real estate acquisition opportunities as well. Typically, private equity firms investing in companies will also use this measure to assess the profitability of an investment over the hold period. Expressed as a percentage, the IRR is a return metric that factors the profit generated over

the holding period compared to the total amount of capital invested as well as the time value of money, estimating the current value of the income generated in the future.

**Answer Key**

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