



REAL 920A Section 81
Special Topics in Real Estate Finance: Distressed Debt and Real Estate Private Equity
Winter Quarter 2010 (First 5 weeks)
Wednesdays, 6:30-9:30 PM
Evanston Campus – Jacobs Center

Instructor

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Electronic Resources

All materials will be posted on my web site at:
<http://www.kahrrealestate.com/northwestern2010.shtml/>

Description

From the bulletin:

“This class will focus on the restructuring of distressed debt for real estate development projects and investments. The events leading up to the current crisis and comparisons with comparable crises will be discussed. Special attention will be given to the focus of real estate private equity funds on distressed debt opportunities.

The technical skills required to build IRR hurdles, catch-ups, and clawbacks for equity partnerships will also be developed through the construction of financial models. The instructor will also utilize numerous examples of actual partnership documents including term sheets, offering books, partnership agreements, and fund models throughout the course.”

From Edge City, Joel Garreau, Anchor, 1992, p. 224:

"People who are consistently successful as developers, by contrast, surviving both boom and bust, have special gifts of character. Not the least of these is their ability to routinely roll the dice with millions of dollars on the table and then sleep at night.

But by and large, developers as a breed have only one specialized skill not generally available in the population: they have the ability to do fairly high-level arithmetic, in their heads, while talking about a completely different topic. What developers do, fundamentally, is run the numbers. And the most impressive number they run is the one in which they manage to divide extremely large dollar figures by 43,560, which is the number of square feet in an acre. By so doing they can and do reduce much of the human experience – quite accurately, as it turns out – to the Deal."

Required Textbook

There is no required textbook for the class.

Suggested Additional Materials

All students will need to have a working knowledge of Excel in order to succeed in this class.

All students should use Excel 2003 or 2007. I will use Excel 2007 in class.

While the Mac version of Excel is acceptable, it is not preferred. Very few people use the Mac version of Excel in the finance world. If you have a Mac, you should strongly consider running Windows on it and the Windows version of Excel.

Examinations and Grading

Case Studies	80
Participation	<u>20</u>
Total	100 points

Deadlines in this class, as they are in business, are firm. Assignments are due at the beginning of the scheduled class. **If assignments are not handed in on time, they will not be accepted.** An extension of the due date will be considered only under extreme circumstances (i.e., a life-threatening illness that renders you incoherent, acts of nature or the divine [flood, fire, locusts], and/or act of war). All medical excuses will require a signed note from a medical doctor (and he or she must not be related to you).

All homework assignments must be completed using Microsoft Excel and Microsoft Word. Assignments must be submitted by email and properly formatted for printing.

Electronic Homework Submittal Responsibilities:

Failure to correctly label an assignment will result in a 10 point deduction.

Subject Line: HW(#) (Last Name), (First Name)
Excel File: HW(#) (Last Name), (First Name)

Example:

To: josh@kahrrealestate.com
Subject: HW1 Smith, John
Attachment: HW1 Smith, John.xls
Body: Wow. That totally chewed up my weekend.

Sessions

	<u>Date</u>	<u>Topic</u>	<u>Homework Due</u>
1	1/6	Introduction to Distressed Debt for Real Estate <ul style="list-style-type: none"> • How did we get here? A brief review of how the real estate credit markets collapsed. • What does it mean for a mortgage to be distressed? • What is the size of the distressed debt market? 	
2	1/13	Real estate law for business professionals Overview of the foreclosure process Negotiation vs. litigation: When is each appropriate? Distressed Debt: Project Specific Issues <ul style="list-style-type: none"> • Ground leased projects • Condominium developments • Mezzanine and preferred equity • Hotel • Land loans 	
3	1/20	Review/Discussion of Case Study 1 Real Estate Private Equity <ul style="list-style-type: none"> • Structure and overview of market • Evolution of RE Private Equity • Next Steps in its Development 	Case Study 1: The “Damsel” in Distress – Restructuring a condominium development
4	1/27	Real Estate Private Equity <ul style="list-style-type: none"> • Partnership and joint venture structures • Lookbacks, clawbacks, catch-ups • How does RE Private Equity vary from traditional private equity? • Fees and integration of RE Private Equity into preexisting companies 	
5	2/3	Review/Discussion of Case Study II Conclusion of Real Estate Private Equity Next Steps in the Credit Markets: What are the most likely potential outcomes for the commercial real estate industry, and the debt markets, over the next 3-5 years?	Case Study 2: Modeling a RE Private Equity Fund – Evaluating potential investments, and its impact on the overall fund’s performance

The homework assignments can require a remarkable amount of time to complete.

Additional Student Responsibilities:

- If you miss class, you are responsible for obtaining reading assignments and handouts from other students. A student’s absence will not excuse that person from deadlines regarding assignments that are due on the date of the absence.

- You may record lectures only if you are present. You may not videotape a lecture.
- Please set your cell phones to vibrate (or off) before entering class.
- Class starts on time. From the movie, Fast Times at Ridgemont High:

Mr. Hand: Mr. Spicoli, what's your excuse for your truancy?

Jeff Spicoli: I just couldn't make it on time.

Mr. Hand: You couldn't or wouldn't come to class?

Jeff Spicoli: Well, there was a long line in the cafeteria and I was having a hit of the munchies...

Mr. Hand: Food will be eaten on your time, Mr. Spicoli. Mr. Spicoli, why are you continually late for this class? Why are you continually wasting my time and the classes with this tirade every day?

Jeff Spicoli: Uh, uh... I don't know.

- Attendance is not the same as participation. Participation is strongly encouraged. From the movie Ferris Bueller's Day Off:

Economics Teacher: In 1930, the Republican-controlled House of Representatives, in an effort to alleviate the effects of the... Anyone? Anyone? ...the Great Depression, passed the... Anyone? Anyone? The tariff bill? The Hawley-Smoot Tariff Act? Which, anyone? Raised or lowered? ...raised tariffs, in an effort to collect more revenue for the federal government. Did it work? Anyone? Anyone know the effects? It did not work, and the United States sank deeper into the Great Depression. Today we have a similar debate over this. Anyone know what this is? Class? Anyone? Anyone? Anyone seen this before? The Laffer Curve. Anyone know what this says? It says that at this point on the revenue curve, you will get exactly the same amount of revenue as at this point. This is very controversial. Does anyone know what Vice President Bush called this in 1980? Anyone? Something-d-o-o economics. "Voodoo" economics.

Plagiarism:

Copying the work of others is cheating. This includes copying the Excel models of others, or working together with classmates on assignments that are meant to be completed individually. While there is no reason not to approach your classmates to discuss issues that you find difficult, do not make the mistake of blatantly copying their work. **Any cheating offence will result in failure of the class, not just the assignment.**