

REE 6948
Spring 2017
Capstone Seminar and Applied Project

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CAPSTONE COURSE AND PROJECT OVERVIEW

This year's capstone project is being supplied and supported by Covenant Capital Group (<http://www.covenantcapgroup.com/>). Covenant Capital Group is a real estate private equity firm specializing in value-added acquisition and redevelopment of apartment communities. Covenant manages over \$500 million of equity invested in \$1.8 billion of apartment assets with over 17,000 units located predominantly throughout the Southeast and Mid-Atlantic regions. Covenant's performance and long-term track record has been recognized by Preqin. Covenant Capital Group was named in the Consistent Performing Closed-End Private Equity Real Estate Managers by Preqin in the 2011 *Preqin Global Real Estate Report* based on a universe of 97 firms and 551 funds and the 2013 *Preqin Global Real Estate Report* based on a universe of 115 firms and 625 funds. We are grateful to Mr. Rick Scarola, Cofounder and Managing Partner, for providing this unique opportunity to the MSRE class of 2017.

The capstone project will focus on Covenant Apartment Fund VIII, L.P. (the "Fund"). This is the eight real estate private equity fund raised by Covenant Capital Group, LLC. Covenant is acting as the General Partner of the Fund and has acquired capital commitments of \$240 million from a broad array of institutional and high net worth investors. Covenant and its employees have also committed capital to be invested alongside of the Fund's equity investors. According to the Fund's Private Placement Memorandum (PMM), the Fund is targeting a levered internal rate of return for its investors of 16%-18% over a projected five- to seven-year holding period.

The specific focus of the capstone project is a property recently purchased by the Fund. *Holly Garden Apartments* is a 258 unit multifamily community located just south of downtown Orlando. The offering memorandum for the property is available on the course Canvas site. Your first task is to provide a market value (appraisal) analysis of the property with an analysis start date of May 1, 2017. Your second task will be to provide an investment analysis of *Holly Garden Apartments* with an analysis start date of May 1, 2017. You are to assume the property has not yet been purchased by the Fund and your team is to make a recommendation to the Fund's investment committee as to whether the Fund should purchase the property as of May 1, 2017 and propose the maximum amount the Fund can bid for the property. You will be given an outline of what your report/recommendation to the Fund's investment committee should contain.

Students will work in groups of approximately five students. All groups will independently work on the same capstone assignments. We will launch the capstone class on Tuesday, February 28th. Capstone groups will be selected just after the class meeting on February 28th.

On Friday, **March 17** we will travel by bus to Orlando to visit *Holly Garden* and to meet with Mr. Scarola and Brian Lott, a MSRE graduate. In addition to touring the property, Mr. Scarola and his team will provide more background on Covenant Capital Group, Fund VIII, as well as answer any questions the students may have at that time. All MSRE students enrolled in Capstone are required to attend this all-day event.

Your primary deliverables for the Capstone course are briefly summarized as follows:

1. Your “as if” market valuation and analysis for *Holly Garden* must be emailed to Professor Ling by 11pm on Wednesday, **April 5**. The rent roll, operating expense history, and other information for the property will be posted to the class Canvas site. The write-up should be in the form of a letter to Mr. Scarola of Covenant that contains the market values you estimated using the sales comparison and income approach, your opinion of market value based on your reconciliation of the two approaches to value, and the assumptions you used in performing the appraisal. Much of the work performed while completing the appraisal assignment will be directly applicable to the investment analysis of the acquisition. More details on the appraisal assignment (HW#1) will be available on the class Canvas site in a separate Word document.
2. Each group will perform a Fund-level cash flow/waterfall/IRR analysis under the assumption that the *Holly Garden Apartments* is the only property owned by the Fund (HW#2). The Fund’s waterfall is explained in the private placement memorandum. This assignment must be emailed to Professor Ling no later than 11pm on Thursday, **April 13**. Details on this assignment will be available in a separate Word document.
3. The first round of investment committee presentations (HW#3) will take place on Monday, **April 17th** and Tuesday, **April 18th**. Four groups will present on April 17th; four on April 18th. Mr. Becker and Professor Ling will listen to and critique each group’s presentation and investment committee recommendation. Presentation times will be determined later, but the first group will present at 4:05pm. All students must be present and participate in the first round presentations. The four groups with the best analyses and presentations will move on to the final round of presentations on Thursday, April 20th. Mr. Becker and Professor Ling will post the names of the four groups advancing to the final round by 10pm on Tuesday, **April 18th**.
4. On Thursday, **April 20**, the four remaining groups will each make a 20-25 minute “investment” valuation and analysis presentation on the *Holly Garden* acquisition to Mr. Scarola and Mr. Lott (HW#4). Before Covenant commits to buy a property being considered for acquisition by the Fund, the acquisitions team makes a presentation to the Fund’s investment committee. This committee is comprised of Mr. Scarola and several other high-level Covenant employees. During these presentations, the acquisition team makes and defends its recommendation on the potential acquisition to the investment committee on whether or not the property should be purchased by the Fund. All students in the four remaining groups must be present on April 20th, although not all students must participate in the final presentation. The four groups not chosen to participate in the final presentations are required to attend the final round of presentations on April 20th. The final presentation will take place from 4:00-7:30pm on **April 20th**.

After completion of the capstone requirements on April 20, Professor Ling and Mr. Becker will total the scores earned by each group on each part of the capstone assignment. The winning group will be announced at the MSRE Program reception in Hough Hall on **Friday, April 28** (parents, other family members, and friends are invited). The names of the winning group will be added to the capstone trophy, which resides in the Bergstrom CRES office suite.

COURSE GRADING

Course grades will be based on the following deliverables, weighted as indicated:

Score on MSRE comprehensive exam (Thursday, March 16)	20%
Write-up of the <i>Holly Garden</i> appraisal (HW#1)	15%
Calculation of fund-level cash-flow waterfall and returns (HW#2)	10%
<i>Holly Garden</i> “Investment” report & presentation as determined by panel of judges (HW#3)	30%
MSRE student evaluation of individual team member contributions	15%
Faculty evaluation of individual performance, attendance, participation, attitude, etc.	10%

Attendance at all class meetings and events is mandatory unless they conflict directly with a scheduled class. Outside work commitments of any kind will not be considered an excused absence. Any scheduling issues or questions should be directed to Professor Ling.

Hough 140 is reserved for our use on Fridays from 1:55-3:50pm. We will not generally meet as a class on Friday afternoon, although we may when/if necessary. Hough 140 may be reserved through Professor Ling during these times by groups needing access to a meeting room. Professor Ling and Mr. Becker will make every effort to meet with individual teams at arranged times to answer questions.

EVENT SCHEDULE-SUBJECT TO CHANGE

You are expected to be flexible with your time during the capstone project. We will do everything we can to provide advanced notice of required meetings, sessions, and deadlines. However, we are working with busy professionals who face changing calendars on a daily basis. We are very fortunate to have these kinds of opportunities made available to our MSRE program. However, we may have to make last minute changes to the capstone schedule as calendars change. Here is the schedule as we know it today:

Tues., February 28, 4:05pm	Professor Ling will “launch” the capstone class by providing more details on the assignments and subject property.
Thur., March 16, 4:05pm	MSRE Comprehensive exam
Friday, March 17, 8:00am-	Travel to Orlando to visit <i>Holly Garden Apartments</i> to meet with Mr. Scarola and Mr. Lott. Our bus will leave promptly at 8:00am from outside of Hough Hall. We expect to return to campus no later than 5:00pm.
Wednesday, April 5, 11pm	Appraisal report on <i>Holly Garden Apartments</i> due in Prof. Ling’s email inbox (HW#1).
Thursday, April 13, 11pm	Fund-level cash flow/waterfall analysis (HW#2) due in Professor Ling’s

email inbox.

- Monday, April 17, 4:00pm- First round of Covenant Capital investment presentations (HW#3). Four groups will make presentations to Mr. Becker and Prof. Ling. Groups and presentation times to be determined.
- Tuesday, April 18, 4:00pm- First round of Covenant Capital investment presentations (continued). Remaining four groups will make presentations to Mr. Becker and Prof. Ling. Groups and presentation times to be determined. Mr. Becker and Prof. Ling will announce the four winning teams by 10:00pm.
- Thurs., April 20, 4-7:30pm Four remaining groups will make investment analysis presentations to Mr. Scarola and Mr. Lott. The first presentation will begin at 4:00pm. Presentation times for each group to be determined. Members of the four groups that did not make it to the finals are to attend these final presentations in their entirety. After the fourth presentation, Mr. Scarola and Mr. Lott will meet with the entire class, provide some general comments and criticisms, answer questions, etc.
- Friday, April 28, 1-3:00pm The winning capstone group, as determined by Mr. Scarola and Mr. Lott, will be announced at the MSRE Program reception in Hough Hall.