

University of Pennsylvania
The Wharton School
REAL 891
REAL ESTATE ENTREPRENEURSHIP
FALL 2010 - first mini-mester
Sept 13 – Oct 25, 3-5:40 pm
Room – 350 SH-DH

Dr. Peter Linneman (call me Peter)

1470 Steinberg Hall- Dietrich Hall

linnemap@wharton.upenn.edu

Office Hours: Appointments are made by emailing me.

I will only discuss course topics (not your job search) during office hours.

(215) 898-4794

NOTE: ABSOLUTELY NO LAPTOPS, PHONES, BLACKBERRYS, OR SIMILAR DEVICES MAY BE USED IN CLASS

NOTE: ONLY STUDENTS ENROLLED IN THIS COURSE FOR CREDIT MAY ATTEND CLASS SESSIONS. NO CLASS AUDITING IS PERMITTED.

This course meets for 6 sessions of two hours and 40 minutes each. Class begins promptly at 3 p.m., and will generally end at 5:40 p.m. No break will be taken.

I will treat you as a high quality professional who is committed to a full-time job. Since I expect you will work about 50 hours a week on average on your courses, I expect 60 hours of work over the 6 weeks of the course. This consists of attendance for the entirety of all class sessions, (16 hours) and roughly 44 hours on the term assignment.

I recommend four books as fun reading for anyone interested in entrepreneurship:

- *Crossing the Road to Entrepreneurship* by Bert L. Wolstein (2004),
- *Threshold Resistance* by A. Alfred Taubman (2007)
- *Four Seasons* by Isadore Sharp (2009)
- *Confessions of a Real Estate Entrepreneur*, by James A. Randel.

And as an informed entrepreneur you should also read as much as possible, including The Economist, Wall Street Journal, Financial Times, and local newspapers (in this case, the Philadelphia Inquirer). My paper on real estate entrepreneurship will be electronically distributed.

Your grade will be determined by two factors. The first is the quality of your proposal to acquire the surface parking lot between 8th and 9th on Market St. (Philadelphia). You are to propose an all cash purchase of the property in the context of today's market. An absurdly low bid and absurdly high bid are equally weak. All but \$100,000 of the required capital (which you will provide; this \$100,000 is 80% of your net worth) must come from either lenders (at realistic terms) or me (at realistic terms). The proposal is being made to me as a private equity investor. You must bid to purchase this site.

Your proposal will be evaluated based upon:

- Clarity of presentation (including strictly adhering to the required format)
- Completeness of analysis
- Addressing relevant market conditions
- Realistic costs, market rates, and timing estimates
- Realistic proposed capital structure
- Realistic deal terms
- Realistic proposed capital costs
- Regulatory considerations
- Attractiveness of return relative to risk.

The proposal is due (in hard copy) by noon of the last day of class (Oct 25), outside my office in SH-DH. It must be in the form of a business memo, addressed to me, with standard spacing, and may not exceed a total of 2 pages (including all tables, charts, schematics, etc). If it violates any of these criteria, or is late, as in the real world, it will not be read and you will fail (literally).

You are to work on this proposal completely by yourself. It is not, in any way, a group assignment.

You may legitimately access any professional sources (except PREIT personnel) willing to assist you. Your proposal is being reviewed by a reasonably intelligent, experienced, and busy real estate professional. Your proposal will be categorized as one of the following:

- “compelling” (A)
- “interesting” (B)
- “nothing special” (C)
- “I don’t get it” (D/F).

Your task is to create a realistic and compelling 2 page memo.

The second element of your grade is that you will lose two grades (e.g., an A+ becomes an A-) for each class you miss over the final 4 weeks of the class (barring a legitimate religious or serious medical/health reason), or fail to hand in any of the weekly assignments in a timely manner. If you fail to hand an assignment in within the week of the due date, you will lose 4 grades (e.g., an A+ becomes a B). If you think this is too tough, ask what would happen if you missed 20% of your work time, or failed to meet a deadline in the real world. In short, you will be graded on the basis of your performance as a full time student at a premier educational institution.

Class sessions (schedules may be altered to accommodate guests):

Sept 13:

3-3:30pm: Introduction of the course. Basic real estate analysis and deal structure. Note that it will be assumed that you have mastered my book, *Real Estate Finance & Investments: Risks and Opportunities* (2004). This material will not be taught.

3:30-4:40pm – “What is an Entrepreneur?”

4:40-5:20pm – How to access and assess a property opportunity.

5:20-5:40pm – Writing a business memo.

Sept 20:

3-4:30pm – “You Need a Plan”, guest lecture by Barry Sternlicht, Chairman, Starwood Capital

4:30-5:40pm – Discuss the weekly assignment with an emphasis on market analysis.

The assignment for the week is to have visited the site and surrounding market, and prepared a 2 page memo on the opportunity for the site, addressing:

- Product supply in the area
- Market demand in the area
- Zoning considerations
- Site topography
- Site configuration
- Transportation considerations.

This assignment must be handed in by noon Sept 20, in printed form at my office.

Note: No “Drops” after class ends September 20 (absent a medical excuse).

Sept 27:

(NOTE: this occurs outside scheduled class time)

Noon-1:20pm – “Are You An Entrepreneur?”, guest lecture by Sam Zell, Chairman of Equity Group Investments.

3-4pm – “Assessing Risk” a discussion with Sam Zell.

4:00-4:30pm – Discuss the weekly assignment with an emphasis on project analysis.

The assignment for the week is to develop a memo discussing your financial plan for the focus site, and to prepare a 1 page financial proforma and a 1 page summary of key financials for your proposed site use, including:

- Expected rents/prices
- Vacancy expectations
- Revenue timelines
- Project costs
- Expected cap rate.

This assignment must be handed in by noon Sept 27, in printed form at my office.

Oct 4:

3-4:30pm – “How Do You Grow Your Business?”, guest lecture by Steve Roth, Chairman of Vornado.

4:30-5:40pm – Discuss the weekly assignment with an emphasis on negotiations and deal structure.

The assignment for the class is to develop a one page memo discussing the proposed capital structure for the acquisition of the focus site. This should include:

- Amount of debt (if any)
- Amount of equity

- Key debt terms
- Key equity partner terms
- Sources and uses of funds
- A proforma return waterfall.

This assignment must be handed in by noon Oct 4, the day of class in printed form at office.

Oct 11: No class (due to Fall Break)

Oct 18:

3-4:30pm – “Anyone Can Survive the Ups; How Do You Survive the Downs?”, guest lecture by Steve Ross, Chairman, Related Companies

4:30-5:40pm – Discuss the assignment weekly assignment with a focus on expectation and exit strategy.

The assignment for the week is to develop a one page memo on the key phases of your proposed plan for the focus site. This should include:

- A timeline of key events
- Who will perform what roles
- A timeline budget
- Proposed tenancy
- Exit strategy.

This assignment must be handed in by noon Oct 18, the day of class in printed form at my office.

Oct 25:

3-4:30pm – “Solving Problems Is What Entrepreneurs Do”, guest lecture by J. Ronald Terwilliger, Chairman Emeritus of Trammell Crow Residential

4:30-5:15pm – Discuss final assignment.

5:15-5:35pm – What does it all mean?

5:35pm – Complete course evaluations.

Final Class (no exam). *The final written report is due by noon outside my office on Oct 25. No exceptions will be made. Turning in this assignment late may result in an F.*