

*University of Pennsylvania
The Wharton School*

**REAL 891/396-401
Real Estate Entrepreneurship
Fall 2020**

COURSE DESCRIPTION

Professor Ari M. Shalam
4th Floor Vance Hall
3733 Spruce Street
Philadelphia, PA 19104
Tel: 215-898-9687
e-mail: ashalam@wharton.upenn.edu

Office Hours: By Appointment Only

Teaching Assistant: Kaitlin Young
e-mail: jkyoung@wharton.upenn.edu

Course Description:

This half-semester course will focus on entrepreneurial aspects of the real estate investment business. The course structure is designed to track the life cycle of real estate investing, with different units focusing on discrete stages of the deal process from sourcing and capital raising to asset management and property disposition. At each juncture, granular attention will be paid to real-life deal making skills, all from the perspective of an entrepreneur operating with limited resources in different economic environments. As part of the class, you will analyze steps in the deal process, models and investment documentation that, once assembled, will arm you with a “deal tool kit” that you can reference as you engage in real estate transactions throughout your career. At the end of the course, time will be allocated to discuss the trajectory of entrepreneurship and how it corresponds to careers in the real estate business.

Course Philosophy:

Like most businesses, success in the real estate business is characterized by intense, hard earned experience. Every day, industry entrepreneurs encounter new challenges, meet all sorts of characters both good and bad, contend with unexpected setbacks, find wonderful success and hit times when they wish they could wind the clock back. And all the way through, they are making judgments, managing risk and most of all, hustling. All of these experiences shape the perspective of the real estate entrepreneur. While it is difficult to impart a career’s worth of experience in just one course, there are many lessons that can be taught. The most teachable of these relate to navigation of the deal process. As you learn how deals are done, you will also gain an appreciation for the entrepreneurial qualities that contribute to long term success in this business. While not all of you will come away from this class convinced that being a real estate entrepreneur is for you, if I do my job correctly, my hope is that all of you will have an appreciation for how the business works and what it takes to be successful.

Course Structure:

The course will meet six times during the first half of the academic semester. Meeting dates are September 3, 10, 17, 24 and October 1 & 8. The class will meet from 3:00-6:00pm. All classes will be split into two sub-sessions with a short break in between. I will always lecture for at least one of the sub-sessions, with the second sub-session generally reserved for case studies, guest speakers or continued instructional periods.

A seventh session will be available on October 15th for open questions and answers, more in-depth review of any material covered (if requested), or individual meetings regarding real estate entrepreneurship or careers in the industry. This last session will not include any formal presentation unless one is requested and is entirely voluntary from an attendance standpoint. It is really just a bonus session provided for the benefit of students in the class.

Attendance:

Class attendance and assignments are mandatory, including for the first class. Grades will be reduced for class absences without a legitimate excuse and for incomplete or late assignments. Class attendance will be noted by the Teaching Assistant at the beginning of each class.

Guests:

The class will feature a number of guests, often participating in the second portion of the class. In general, I have sought to bring true practitioners to the class who have been in the trenches doing complicated deals (often with me) and whom I believe can share current, hands-on experience relating to the topics we will be learning. I trust you will find this beneficial. And it goes without saying, please be courteous to all guests and speakers, especially as they will be new to the online format. They are taking time out of their busy schedules to come to class and they deserve your undivided attention.

Covid-19:

Due to the ongoing Covid-19 pandemic, class enrollment has been relegated to a fully online format. While not ideal, this teaching format will require patience and adjustment from all involved. I will do everything possible to make each class experience as rewarding as possible for all parties involved. At the same time, you need to be patient, actively engaged and flexible. You will only take away what you put into the class so it is important that you are always present and focused.

With respect to protocol, it is preferred but not required that video be on. However, if you speak, your video must be on. In addition, there will be periodic polls and questions that will require responses. Therefore watching recordings is not a substitute for synchronous teaching. As all this is new, this protocol may change over the course.

Texts:

The class will use selected readings from:

1. Creating and Growing Real Estate Wealth by William Poorvu
2. Confessions of a Real Entrepreneur by James Randel

3. Real Estate Finance & Investments (5th Edition) by Peter Linneman

While we will not read every chapter from these books, the first two are relatively inexpensive paperbacks and should be purchased by students. They provide good background material and I encourage you to read the portions that are not assigned on your own. The Linneman text is used by several other real estate classes taught at Wharton. As a result, please feel free to use prior editions if you already have it. If not, the chapters we read will be available electronically through Lippincott and therefore, the text is not necessary to purchase. Finally, a small handful of assigned articles will be available through study.net and via Canvas.

Takeaway Deal Tool Kit Material:

Each class will have Takeaway Deal Tool Kit material provided through Canvas. Items include sample purchase contracts, letters of intent, joint venture term sheets, financial models, offering memorandum, etc. Not all documents will be reviewed in class but the goal of the Deal Tool Kit is to provide you with an objective compendium of information that you can continuously refer to as you embark on a real estate career. It is my hope that one day, you will pull out some of this material and it will help you navigate one or more real world entrepreneurial issues. Please download all the documents and store them in a safe place for future access as they will not be available after the class concludes.

Credit:

The class is open only to students enrolled for credit. No auditing is permitted.

Grading:

Grading will be: 1/3rd written assignments
 1/3rd case studies
 1/3rd overall participation & attendance

The total point value associated with these graded components is 270.

Coursework & material:

There will be 5 assignments. These will all be done and turned in individually the day before class. There will also be 3 case studies due the day before the corresponding class for which they are assigned. These cases will be shorter format than typical Wharton or HBS cases and will be prepared in groups of two which you can sign up for on Canvas. Where possible, I encourage MBAs to partner with undergraduate students. All associated write ups or slides for the case studies will also be turned in the day prior to class at 5pm EST (please refer to Canvas Assignments for this). Finally, all course material will be posted on Canvas, typically by Monday of the week class occurs if not earlier. Late assignments and casework will be captured in the overall participation & attendance component of grading.

Note: Several of the assignments and cases include mathematical or financial exercises that are supported by Excel work and concepts such as NPV. While the level of math is not more advanced than general high school algebra, these assignments may pose a challenge to students

that have not had exposure to any financial or real estate classes prior to enrolling or otherwise. Where possible, try to partner with students that do have the experience and talk to myself or the TA if you need additional support.

Academic Integrity:

It is your responsibility to make sure your entire team prepares cases independently and that you do assignments and class preparation individually. Violations will result in full lost credit for the submission and/or the class in its entirety. Separate from general educational support on unfamiliar topics, you may not obtain direct or improper assistance (e.g., cheat) from current students, former students or anyone else involved in the real estate investment industry. You also may not provide such assistance or advice once you are no longer enrolled in this class. You may not share your written materials or Excel with anyone or upload them to any databases or cloud drives maintained by any campus organizations (e.g., fraternities, sororities, clubs, etc). Violations of these rules will be treated as violations of Penn's Code of Academic Integrity. Further, the school will not distinguish between the plagiarizer – the team using other's materials – and the provider of the materials. If it is determined that your work is the source of plagiarized material, the violation will be reported and efforts will be made to retroactively change your grade.

COURSE SCHEDULE / SYLLABUS

1) **September 3rd: Class 1 - Deal Sourcing**

a) *Assignment for Class:*

- i) Reading: *Confessions of a Real Estate Entrepreneur*, James Randel: Chapter 3 (pages 13-19 up to mortgages & 28-43 up to Leases), Chapters 5 and 16.
- ii) Reading: *Creating, Growing+Managing Real Estate Wealth*, William Poorvu: Introduction and Part I (pages 1-58).
- iii) Reading: The Annotated Purchase and Sale Contract (on Canvas)

b) *Sub-Session A: Lecture: Deal Sourcing & Acquisitions*

- i) Lecture will: (i) introduce entrepreneurship in the real estate industry, (ii) provide an overview of asset classes and opportunities, (iii) discuss how to enter new markets, (iv) provide a framework for developing relationships and working with brokers, (v) explain how to walk prospective properties, and (vi) review how to manage the due diligence process, especially with limited resources.

c) *Break*

d) *Sub-Session B: Guest Lecture & Tying Up the Deal:*

- i) Guest Lecture on deal sourcing: James Nelson, Principal, Head of Tri-State - Avison Young NYC on broker engagement with real estate entrepreneurs in NYC
- ii) Lecture will (i) introduce players in the deal landscape (ii) review how to write Letters of Intent, (iii) discuss how to manage the bidding process and (iv) provide an overview of Purchase and Sale Agreements, with a focus on managing deal risk in the contracting process.

e) *Takeaway Deal Tool Kit Material:*

- i) Three types of LOIs – by deal type (from class)
- ii) The Confidentiality / Brokerage Agreement
- iii) The Annotated Purchase and Sale Agreement (from class)

2) September 10th: Class 2 - Deal Valuation

a) *Assignments for Class:*

- i) Reading: *Creating, Growing+Managing Real Estate Wealth*, William Poorvu: Part II (pages 59-121).
- ii) Reading: *Article - Real Estate Appraisal and Valuation*, Fisher & Loutziotis
- iii) Reading: The Ground Lease Term Sheet
- iv) Assignment #1 (due Sept. 9th by 1pm): Call a Broker, Find a Deal - Write it up

b) *Sub-Session A: Lecture: Valuations*

- i) Session will begin with a review of Assignment #1.
- ii) The lecture will (i) review key real estate valuation terminology and (ii) introduce the four valuation methods with scenario examples while providing context as to when they are best applicable for deal valuation (note: the four methods are Comparables, Pro Forma Cash Flow, Development and Land Residual Analyses).

c) *Break*

d) *Sub-Session B: Lecture on Valuations (Continued)*

- i) The lecture will: (i) review unlevered yield on cost as the purist comparative valuation metric, (ii) provide a framework for valuing complex deals, (iii) discuss valuation of distressed deals, (iv) introduce ground leases, (v) review common valuation pitfalls and (vi) review how to best present valuation work to prospective investors.

e) *Takeaway Deal Tool Kit Material:*

- i) 4 Different Kinds Class of Models
 - (1) The Comparable Analysis
 - (2) Forward Cash Flow Model
 - (3) Development Model
 - (4) Land Residual Model
- ii) Ground Lease Term Sheet (from class)

3) September 17th: Class 3 - Debt Financing

a) *Assignments for Class:*

- i) Reading: *Confessions of a Real Estate Entrepreneur*, James Randel: Chapter 3 (pages 19-26) and Chapter 15 (pages 157 up to Institutional Equity on 165).
- ii) Reading: *Real Estate Finance and Investments*: 5th Edition, Linneman: Chapter 15: The Use of Debt Mortgages
- iii) Assignment #2 (due by 5pm on September 16th): Exercise on Valuation
- iv) Case Study #1 (due by 5pm on September 16th): What's the Right Loan?

b) *Sub-Session A: Lecture: Debt Financing*

- i) Lecture will: (i) introduce typical lender profiles, (ii) review key real estate financing terminology, (iii) discuss how lenders underwrite and size loans, (iv) explain simple and more complex capital stacks that include mezzanine and/or preferred equity for additional leverage, (v) provide an overview of mortgage brokers and how the financing process works, (vi) review a typical lender term sheet, (vii) outline the role of lender guarantees and how to minimize personal exposure, (viii) introduce the lender documentation process and (ix) review how deal closing statements work.

ii) *Break*

c) *Sub-Session B: Guest Lecture & Case Study*

- i) Guest discussion on mortgage financing with Ayush Kapahi of HKS Capital Partners, a New York City based mortgage brokerage firm that has originated in excess of \$13 billion in financings for its clients. Ayush is also a principal in SKW Funding, a special situation real estate lender that is backed, in part by Bain Capital.
- ii) Case Study #1: What's the Right Loan?

d) *Takeaway Deal Tool Kit Material:*

- i) Debt Term Sheet (from class)
- ii) Mortgage Broker Agreement
- iii) The Mortgage Note & Guarantees
- iv) Loan Documentation List (from class)
- v) The Sources and Uses Model (from class)

4) September 24th: Class 4 - Raising Equity:

a) *Assignments for Class:*

- i) Reading: *Confessions of a Real Estate Entrepreneur*, James Randel: Chapter 15 (pages 165 beginning with Institutional Equity to end of chapter)
- ii) Reading: *Creating, Growing+Managing Real Estate Wealth*, William Poorvu: Part III (pages 123-191).
- iii) Reading: The Equity Memo
- iv) Reading: The Equity Term Sheet
- v) Assignment #3 (due by 5pm Sept 23): Debt Amortization, Sizing and Loan Selection

b) *Sub-Session A: Overview of Equity*

- i) Lecture will: (i) describe the role of equity in deals, (ii) review key real estate equity terminology, (iii) introduce common equity structures, (iv) introduce typical sources of equity, (v) review five key components required for a successful real estate partnership, (vi) discuss typical fee and incentive structures for deal sponsors, (vii) discuss typical formats for deal control and governance among partners and (viii) outline manners in which deals can be jointly pursued by sponsors and their capital partners to minimize deal risk.

c) *Break*

d) *Sub-Session B: The Docs*

- i) Co-Presentation on joint ventures with Nicole Fenton, Real Estate Partner at Eversheds Sutherland and an expert on the negotiation, structuring, conveyance, and financing of highly complex real estate transactions.
- ii) Co-Presentation will: (i) introduce typical deal organizational structures, (ii) undertake a detailed review of a typical institutional joint venture equity term sheet with a focus on how terms are negotiated among partners, (iii) walk through a pro forma joint venture operating agreement, (iv) introduce the Short-form/Walk-Away Letter and (v) introduce how lender guarantees can be shared among partners with the Contribution & Indemnity Agreement.

e) *Takeaway Deal Tool Kit Material:*

- i) The Equity Offering Memorandum
- ii) The Joint Venture Equity Term Sheet(from class)
- iii) The Joint Venture Agreement (from class)
- iv) Sample Organizational Charts (from class)
- v) The Short-Form/Walk-Away Letter
- vi) The Contribution & Indemnity Agreement

5) October 1st: Class 5 - Asset Management

a) *Assignments for Class:*

- i) Reading: *Real Estate Finance and Investments*: 5th Edition, Linneman: Chapter 4, The Fundamentals of Commercial Leases
- ii) Reading: *Construction Contracts: Understanding the 5 Main Contract Types* by Jonny Finnity
- iii) Reading: The Architectural Process
- iv) Optional Additional Construction Reading: *Construction Pricing Models - Choosing an Appropriate Pricing Arrangement*, by Richard Reizen, Philip Piecuch and Dan Crowley
- v) Assignment #4 (due September 30th, 5pm): Calculate your Promote
- vi) Case Study #2 (due September 30th, 5pm): What's the Best Lease?

b) *Sub-Session A: After You Buy It*

- i) Lecture will: (i) introduce the five elements of Asset Management (ii) review property management, how it works and what are key elements that characterize effective management, (iii) review proper financial reportings, (iii) introduce the three elements of design in real estate and the architectural process, (iv) introduce the construction process, and (vi) introduce the leasing process, both commercial and residential, together with common pitfalls, best practices and typical lease documentation/brokerage arrangements.

c) *Break*

d) *Sub-Session B: Guest Lecturer & Case Study*

- i) Guest Lecturer on Construction & Design: Josh Caspi, Caspi Development LLC
- ii) Case Study #2: What is the Best Lease?

e) *Takeaway Deal Tool Kit Material:*

- i) The Sample Office Lease
- ii) The Property Management Agreement
- iii) The Distribution Template (from class)
- iv) The Financial Reporting Package (from class)
- v) The Investor Report (from class)
- vi) The Leasing Brokerage Agreement
- vii) The Net Effective Rent Spreadsheet

6) October 8th: Class 6 - Sell vs Hold & Entrepreneurial Pathways

a) *Assignments for Class:*

- i) Reading: *Confessions of a Real Estate Entrepreneur*, James Randel: Chapters 19 & 20
- ii) Reading: *Real Estate Finance and Investments*: 5th Edition, Linneman: Chapter 18: Real Estate Owner Exit Strategies & Chapter 24: Some Observations on Real Estate Entrepreneurship
- iii) Assignment #5 (due by 5pm October 7th): Lease Abstract & Decision Making
- iv) Case Study #3 (due by 5pm October 7th): Should I Stay or Should I Go Now?

b) *Sub-Session A: Selling*

- i) Case Study #3: Should I Stay or Should I Go Now?
- ii) Lecture will: (i) discuss decision making pertaining to selling, (ii) introduce the concept of comparative relinquished net yield, (iii) introduce how taxes can influence the sale decision, (iv) introduce ways in which taxes can be mitigated, including 1031 exchanges and Opportunity Zones, (v) review the merits of off-market vs on-market brokerage processes and (vi) review the sales process, including documentation and closings.

c) *Break*

d) *Sub-Session B: Entrepreneurship*

- i) Guest Lecture Panel on Entrepreneurship
 - (1) Matthew Cassin - Partner & Co-Founder JMC Equities
 - (2) David Ardit - Principal & Co-Founder Aria Development Group
- ii) Final Lecture will: (i) review the key personal attributes of strong real estate entrepreneurs, (ii) provide a framework for the typical progression of careers in real estate, (iii) review common paths to enter the business, (vi) outline important guiding lessons in real estate entrepreneurship.

e) *Takeaway Deal Tool Kit Material:*

- i) The Sell vs Hold Analysis (from class)
- ii) The Sales Brokerage Agreement
- iii) Primer on 1031 Exchanges & Opportunity Zones

7) **October 15th: Class 7**

a) Optional Class - TBD

i) Format is open Q&A, student requested additional discussions, etc

ii) Attendance not required