

*The Wharton School
University of Pennsylvania*

**REAL 8910/3960-401
Real Estate Entrepreneurship
Fall 2023**

COURSE DESCRIPTION & SYLLABUS

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Course Overview:

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 detailed steps in the deal process, financial models, mathematical concepts, and investment documentation that, once assembled, will arm you with a “deal tool kit” that you can retain and 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 real estate entrepreneurship and how it might correspond to your career in the business as you get started.

Interested students are cautioned that the class is not a laid-back survey course. The class will delve deeply into the gritty details of the real estate deal making process with cases and assignments tasking students to learn important yet challenging mathematical and legal concepts key to the business. In prior years, some students have dropped after learning this, consequently blocking out others that really wanted to take the class. If you have any questions about the appropriateness of the class for you, please contact the instructor or TA.

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 might come away from this class convinced that being in real estate 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 as an entrepreneur, irrespective of industry.

Course Structure:

The course will meet six times during the first half of the academic semester. All classes meet on Wednesdays from 3:30 to 6:30pm. Meeting dates are August 30th, September 6th, 13th, 20th, 27th, and October 4th. The majority of class time will be devoted to lectures with assignment review, case studies, and/or guest speakers woven in. For note-taking purposes, slides for each class will generally be posted by the night before.

All classes will include a short 5-12 minute break approximately halfway through depending on the amount of material to be covered. As the class runs long through the late afternoon, eating or drinking during class is permitted so long as you are not disruptive. Accordingly, please refrain from leaving class during lectures and try to arrange any calls or purchases of food or drink from Pret to occur before class or during the breaks.

Attendance & Recordings:

Class attendance and assignments are mandatory with attendance, participation and engagement contributing to grading. Grades will be reduced for class absences without advanced or legitimate excuse as well as for incomplete or late assignments. Class attendance, lateness and/or early departures will be noted by the Teaching Assistant during each class and through the Wharton attendance app. If you cannot fully attend class, you must email both the TA in advance to be excused. Subject to Wharton policy, recordings for missed classes may be available for excused absences.

Please note: Important material is covered in the first class- As permitted by the department, enrolled students who do not attend the first class may be dropped to accommodate any waitlisted students. In addition, waitlisted students that attend the first class are more likely to be admitted for open spots than non-attending students.

Prerequisites:

Students enrolling in the class are minimally required to have taken FNCE 1000 for undergraduates or FNCE 6110 for MBAs. This introductory finance class will provide a basic framework for some of the quantitative concepts we will work with. While not a mandatory prerequisite, Real Estate Investments (REAL 2090 (UG) or REAL 7210 (MBA)) is recommended so students have a more expansive foundation of the basic concepts we will cover. See the Coursework and Material section below for more detail.

Electronics Policy During Class:

During class, only flat tablet electronic devices such as I-Pads will be permitted for note taking purposes as slides for each class will be posted the day before class. Cell phones and regular laptop usage is not permitted during class.

Guests:

The class will feature a number of guests. 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 generally participating in a virtual format. They are taking time out of their busy schedules to come to class and they deserve your undivided attention.

Texts:

The class will use selected readings from:

1. *Confessions of a Real Entrepreneur* by James Randel
2. *Real Estate Finance & Investments (5th Edition)* by Peter Linneman
3. *Creating and Growing Real Estate Wealth* by William Poorvu (recommended)

While we will not read every chapter or directly discuss much of the material during classes, the Randel and Poorvu books are relatively inexpensive paperbacks and should be purchased by students. The books provide a solid overview on the entrepreneurial real estate process and serve as a backdrop for the class lectures. The Randel book will provide more technical information you'll need whereas the Poorvu book is more backdrop and merely just recommended. If you have time, 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 or can borrow them from friends. If not, physical copies of the text are available at the Lippincott Library and therefore, it is not necessary to purchase it. 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, working 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. The availability of this material will also allow you to revisit topics at a future date that we may not touch upon during class time. 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.

Dinners:

Subject to Wharton policy, I will host small dinners after class for students interested in spending more time discussing real estate, the class or professional careers (or anything else you're

interested in!). Dinners are normally scheduled to occur after classes 4 through 6. The teaching assistant will handle sign ups which will be announced in class and will be on a first come, first serve basis for approximately 7 students per dinner. Expect to walk over to a nearby restaurant after class and spend about 1.5-2 hours together.

Credit:

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

Grading:

A point system totalling 1,000 pts will be used to track the three course grading components using the following allocations:

- 45% written assignments (total of 5)
- 44% case studies (total of 2)
- 11% attendance, participation and engagement

There is no final exam or final project. While plenty of students do well, it's worth restating the obvious that not everyone can place in the A range, especially if the standard deviation of aggregate point values is tight. Often, participation, attendance and overall engagement is a differentiating factor. Furthermore, MBA students will be subject to the Wharton CMGPA policy which stipulates the average MBA GPA can not exceed 3.5. Students should be aware that depending on class performance, down curving may be required to meet this requirement. *Based on all these factors, if you are entirely focused on GPA, this may not be the class for you.*

Coursework & Material:

There will be 5 weekly assignments. These will all be done individually. Four of the assignments will be performed and submitted in Excel format. It is important that you are comfortable with Excel if you are taking this class.

In addition, there will also be two case studies. These cases will be shorter in format than typical Wharton or HBS cases and will be prepared in groups of four that you will sign up for on Canvas. There will be no penalty if a handful of groups end up with only three students as a result of a coursemate dropping the class or an odd number of enrolled students ending up in the course. Where possible, I encourage MBA and undergraduate students to partner with each other.

It is important to note that the course load will be somewhat heavier in advance of the 3rd and 5th classes as both a case and assignment will be due at the same time. Please plan accordingly.

All assignments, takeaway material, and cases for the subsequent week will be posted on Canvas shortly after class concludes. Further, all assignment and case submissions for the following week will be due prior to the next class. To save class time, recorded assignment reviews will also be posted on Canvas shortly after they are due. If you need additional help to understand concepts covered in the assignments beyond what is covered in the recorded assignment reviews, the TA or I will be happy to go over the material individually. Given the release of assignment review recordings and case reviews that occur during class, late assignments and casework or

incomplete submissions will be penalized as the answers will have already been distributed. Therefore it is imperative that you turn in your work on time.

Note: Several of the assignments and cases include mathematical or financial exercises that require Excel spreadsheet manipulation and/or the use of the NPV, IRR, PMT and related functions. These assignments may pose a challenge to students that are somewhat less conversant in these basic financial concepts, with the use of Excel, or are not financially or mathematically inclined. Please take this into consideration when selecting the class and if enrolled, please try to partner with students that do have the experience and/or talk to myself or the TA if you need additional support.

Academic Integrity:

All relevant University policies regarding Academic Integrity must be followed. Please consult the Code of Academic Integrity for details and clear descriptions of prohibited actions. It is your responsibility to make sure your entire team prepares cases independently and that you do all other assignments and class preparation individually. Violations will result in full lost credit for the submission and/or the class in its entirety (i.e., a FAIL or F grade). 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 the school's Code of Academic Integrity and may lead to additional sanctions. 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 and/or take disciplinary action.

COURSE SCHEDULE / SYLLABUS

1) **Wednesday, August 30th: 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) (recommended not required).
- 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 tour 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) Subsequent 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.
- iii) Wrap up

e) *Takeaway Deal Tool Kit Material:*

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

2) Wednesday, September 6th: Class 2 - Deal Valuation

a) *Assignments for Class:*

- i) Reading: *Creating, Growing+Managing Real Estate Wealth*, William Poorvu: Part II (pages 59-121) (recommended not required).
- ii) Reading: *Article - Real Estate Appraisal and Valuation*, Fisher & Loutziotis
- iii) Assignment #1 (due by Class 2): Call a Broker, Find a Deal - Write it up!

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

- i) Session will begin with a short review of Assignment #1.
- ii) The lecture will (i) review key real estate valuation terminology, (ii) introduce the four valuation approaches, and (iii) review case studies and models for the first two valuation approaches: Comparables and Pro Forma Cash Flow Analysis.

c) *Break*

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

- i) The lecture will: (i) review case studies and models for the third and fourth valuation approaches: Development and Land Residual, (ii) review unlevered yield on cost as the purist comparative valuation metric, (iii) provide a framework for valuing more complex deals, (iv) discuss valuation of distressed deals, (v) review common valuation pitfalls and (vi) review how to best present valuation work to prospective investors.
- ii) Wrap up

e) *Takeaway Deal Tool Kit Material:*

- i) 4 Different Kinds of Excel of Models
 - (1) The Comparable Analysis
 - (2) Forward Cash Flow Model
 - (3) Development Model
 - (4) Land Residual Model

3) Wednesday, September 13th: 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 Class 3): Exercise on Valuation
- iv) Case Study #1 (due by Class 3): 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) Case Study #1: What's the Right Loan?
- ii) 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.
- iii) Wrap up

d) *Takeaway Deal Tool Kit Material:*

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

4) **Wednesday, September 20th: 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) (recommended not required).
- iii) Reading: The Equity Memo
- iv) Reading: The Equity Term Sheet
- v) Assignment #3 (due by Class 4): 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 the five key ingredients of 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 Kramer Levin in New York City and an expert on the negotiation, structuring, conveyance, and financing of highly complex real estate equity and debt transactions.
- ii) Co-Presentation will: (i) introduce typical partnership 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 and personal exposure can be shared among partners with the Contribution & Indemnity Agreement.
- iii) Wrap up

e) *Takeaway Deal Tool Kit Material:*

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

5) Wednesday, September 27th: Class 5 - Now You Own It! - Asset Management

a) *Assignments for Class:*

- i) Reading: *Real Estate Finance and Investments*: 5th Edition, Linneman: Chapter 4, The Fundamentals of Commercial Leases
- ii) Video: *The 5 Phases of Architectural Design* by Jorge Fontan
- iii) Reading*: *Construction Contracts: Understanding the 5 Main Contract Types* by Jonny Finnity
- iv) Reading*: *Construction Pricing Models - Choosing an Appropriate Pricing Arrangement*, by Richard Reizen, Philip Piccuch and Dan Crowley
- v) Reading: *Top 10 Pitfalls in Design & Construction* by Josh Caspi
- vi) Assignment #4 (due by Class 5): Calculate your Promote
- vii) Case Study #2 (due Class 5): What's the Best Lease?
*Readings have overlapping concepts so a light review of each is sufficient.

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 reporting, (iii) introduce the three elements of design in real estate and the architectural process, and (iv) introduce the construction process.
- ii) Guest Lecturer on Construction & Design: Josh Caspi, Caspi Development LLC

c) *Break*

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

- i) Lecture will introduce the leasing process, both commercial and residential, together with common pitfalls, best practices and typical lease documentation/brokerage arrangements.
- ii) Case Study #2: What's the Best Lease?
- iii) Wrap up

e) *Takeaway Deal Tool Kit Material:*

- i) The Sample Office Lease & Good Guy Guarantee
- ii) The Property Management Agreement
- iii) The Distribution Template (from class)
- iv) The Investor Report (from class)
- v) The Leasing Brokerage Agreement
- vi) The Typical Commercial Lease Letter of Intent

6) **Wednesday, October 4th: 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 Class 6): Lease Abstract & Decision Making

b) *Sub-Session A: Selling*

- i) 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) Introduce ground leases, (vi) review the merits of off-market vs on-market brokerage processes and (viii) review the sales process, including documentation and closings.

c) *Break*

d) *Sub-Session B: Entrepreneurship*

- i) 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 pathways to enter the business, (vi) outline important guiding lessons in real estate entrepreneurship.
- ii) Guest Lecture Panel on Entrepreneurship
 - (1) Martin Nussbaum - Co-Founder & Partner, Slate Property Group in NY, NY
 - (2) Jesse Weber - Co-Founder & Managing Partner, PlaceMKR in Austin, TX
- iii) Final Class Takeaways & Wrap up

e) *Takeaway Deal Tool Kit Material:*

- i) The Sales Brokerage Agreement
- ii) Intro to Real Estate Taxation in the US and Tax Mitigation Strategies
- iii) The Sample Ground Lease