

**University of Pennsylvania
The Wharton School**

REAL 891/396-401 – Real Estate Entrepreneurship – Fall 2018

Aug 30 to Oct 11, 2018 (no class Oct 4); Thursdays 3-6PM **EXCEPT** Tuesday Sept 18 instead of Thursday Sept 20
Room 265 JMHH (Huntsman Hall)

Professor: William F. Martin – 1468 Steinberg Hall-Dietrich Hall; **email:** willmar@wharton.upenn.edu

Office Hours: By appointment

Teaching Assistant: Jacquelyn Alvira; **email:** jalvira@wharton.upenn.edu

Class is open only to students enrolled for credit–no auditing.

Course Etiquette

The only electronics allowed in the classroom are calculators. Please make sure any other electronics are turned off and put away. Laptops are prohibited unless for educational purposes as permitted by the instructor (e.g., case presentations). Penalties may include losing participation points, reduction of a final grade, or any other academic consequence, as the instructor deems appropriate. This policy applies to all MBA classes.

No food is allowed unless for a medical reason.

Class Objectives

The class goal is to increase your understanding of the broad entrepreneurial aspects of creating and executing real estate investment businesses. Discussions will focus on real estate entrepreneurship, leadership and challenges often encountered in creating successful real estate investments. Real estate is a multidisciplinary, people-oriented business offering opportunities in specific transactions and in organization building on a larger scale. One of the best ways to understand entrepreneurs is to meet them. Guest speakers are experienced entrepreneurs coming to share their knowledge. Class members are expected to engage the speakers with questions and discussion. You are encouraged to share your own experiences and comments in class discussions. Class participation and writings will each represent 50% of the grades.

The course will meet for six three-hour sessions. Class will begin promptly at 3PM. Assignments and cases will require written analyses and class discussion. Guest speakers will visit most classes to discuss entrepreneurship and project challenges, including their personal and firm background and specific projects. Focus will mainly be on entrepreneurial roles, issues and challenges in growing a business, raising capital and executing real estate transactions, rather than development processes.

Readings & Cases

The three books below are required. Students who have taken the real estate finance course will be familiar with the Linneman text but should review the indicated chapters and prerequisite sections. The books will provide background for class participation but will not be followed directly in class. However, certain readings may be specified for class discussion and students may be called on to comment on these.

Guest speakers may provide advance reading materials and/or case challenges. You can also review the firm websites.

Cases will help illustrate real estate decision making and financial evaluation. Short writeups/analyses and responses to questions raised in each case will be assigned. Any class member may be asked to discuss views so be prepared. Again, class attendance and participation are important. For most assignments, the class will be divided into teams. Teams may be randomly selected to present their overview and analyses. Case work will be similar to an initial review assignment in a

real estate firm. Pages should be typed single space and graphics or slides can be used to illustrate points. Be sure to include date, team names and format the write ups for easy printing. Grading will consider the short time allowed and various ambiguities or missing information in the materials. Make reasonable assumptions and note additional information you would like to have for further analysis. Different views may all be correct if well explained.

Required Books:

- **The Wisdom of Titans** – William J. Ferguson
- **Creating and Growing Real Estate Wealth** – William J. Poorvu
- **Real Estate Finance and Investments, Risks and Opportunities**, 4th or 5th new edition – Dr. Peter Linneman, Ph.D. This text will be used as a reference and about half of the chapters are assigned for background reading. This is used in other Wharton courses

Optional Books:

For those who want to read further. Entrepreneurs are lifetime students.

- **Keepers of the Castle** – William J. Ferguson
- **Originals** – Adam Grant, Wharton
- **New Venture Creation** – Spinelli and Adams – this is a textbook which is not real estate specific but presents a good overview of entrepreneurship. You can get earlier editions used.
- **Confessions of a Real Estate Entrepreneur** – James A. Randel

Additional materials will be available in the reading package and handouts.

Attendance & Class Participation

Class attendance and assignments are mandatory. Grades will be reduced for class absences without a legitimate excuse and for incomplete or late assignments. A class attendance form will be handed out at the beginning of each class for your signature or attendance will be noted by the Teaching Assistant.

Confidentiality

Throughout the class, students will have access to proprietary information from guest speakers, other students and faculty. By enrolling in the class, students agree that all such information will be treated as confidential and not to use this information for commercial purposes or disclose this information to any third parties without written permission from the source.

FALL 2018 CLASS SCHEDULE

AUGUST 30

Class overview. What is an entrepreneur? Types of entrepreneurs. Entrepreneurship education.

Guest Speaker

David Yeager, Founder and President, Radnor Property Group, Wayne, PA, developer of the 3737 Chestnut Street apartments. Radnor Property Group has developed numerous projects in ventures with non-profit organizations and is currently developing new apartments in two Philadelphia locations. The firm recently completed the 3737 Chestnut Street apartments in University City, a \$100 million+ mixed use redevelopment with 276 apartments and over 20,000 square feet of retail and office space, two blocks from Huntsman Hall. The firm also recently completed Vue 32, with 164 apartments and 13,800 square feet of child care space on Drexel's campus.

Assignment 1:

- **Personal Memo:** Submit your resume and a separate memo (approx. two pages) discussing your background, why you are taking this course, and what you would like to learn. Due Sept 4, 5PM
- **Real Estate Math:** questions 1-5. Due Sept 4, 5PM. Grading will consider various levels of real estate finance background in the class. This is an INDIVIDUAL assignment.

Readings:

Reading Package – #12, Joint Ventures, Typical Term Sheet

Linneman – Prerequisites I-III, pages 364-396; Chapters 1, 2, 4 & 5

Poorvu – Chapters 1, 2

Ferguson – Chapters 1, 2

SEPTEMBER 6

Characteristics of entrepreneurs. Review real estate math submissions, fundamentals and pro-forma analysis, estimating values. Review main property types and leasing. Joint ventures. Preview assignments and projects to be discussed by guest speakers.

Guest Speaker

“Real Estate Joint Venture Investment” – Ari M. Shalam, founder and Managing Partner of RWN Real Estate Partners, LLC, a NYC based middle market real estate private equity investment platform. RWN targets direct and controlled joint venture investment opportunities and focuses on most value-add property types in New York City and Miami. Since June, 2011, RWN has acquired nearly \$700 million of real estate with nearly \$300 million of total invested equity.

From 2009 to 2011, Mr. Shalam was the President of Enterprise Asset Management, Inc. a real estate centric multi-family office and from 2003 to 2009, he was a Senior Partner and Director of Acquisitions of Taconic Investment Partners, a fully integrated real estate investment and development company. Previously, Mr. Shalam was the Director of Acquisitions for the Kaufman Organization. Throughout his real estate career, Mr. Shalam has led nearly \$2 billion in real estate investments, primarily in New York City.

Mr. Shalam is a member of the board of directors for Voxx International Corporation (NASDAQ: VOXX), a member of the board of the Good+ Foundation and an advisory board member of the Institute of Urban Research at the University of Pennsylvania. Mr. Shalam is a former trustee of the Trinity School in New York City.

Mr. Shalam received his BS in Economics from the Wharton School cum laude and his MBA from the Harvard Business School.

Assignment 2:

- **There are two alternate case assignments and these will be split among selected teams:**
 - **Vue 32 Apartments – refinance or sale**
 - **The Oyster, Edgewater Harbor, NJ and The River House, Tarrytown, NY – sell as condos or maintain ownership as rental apartments.** Prepare a short evaluation of these options for new developer projects.
 - Materials available on Canvas. Due Sept 12, 12PM.
- **Real Estate Math:** questions 6-8. Due Sept 12, 5PM.

Readings:

Reading Package #9 – Open End vs Closed End Funds
 Linneman – Chapters 6, 7 & 19
 Poorvu – Chapters 3, 4
 Ferguson – Chapters 3, 5

SEPTEMBER 13

Discuss the Vue 32 and **Oyster – River House** hold-sell assignment. Financing investment projects: commingled equity funds and terms, joint ventures, term sheets, deal structures and risks. Secondary markets for partnership interests.

Guest Speaker

Joseph Cotter, Principal, National Resources (NRE), Greenwich, CT. “Mixed Use Urban Infill Development” NRE has developed over \$1 billion of mixed use properties with a focus on green design and sustainability. The firm owns over a mile of Hudson River waterfront in the New York metro area. Current projects include Edgewater Harbor, with 495 rental and for sale residences, 100,000 square feet of restaurants and shops plus municipal buildings directly across the river from Manhattan.

Assignment 3:

- **Case – Bella Terra lease buyout.** Materials available on Canvas. Due Sept 19, 12PM. (after the Sept 18 Tuesday class).
 - Retail Lease: Submit a three-page outline of the Burlington shopping center retail lease, focusing on the business terms.
 - Memorandum to Management Committee: Include retail tenant prospective buyout considerations, recommended pricing to buy the tenant out of its long-term low rent lease, timing and risk considerations.

Readings:

Reading Package - #13, 14 and 15 – Secondary interests
 Linneman – Chapters 9 (without supplements) & 14
 Poorvu – Chapters 5, 6
 Ferguson – Chapters 6, 7

TUESDAY, SEPTEMBER 18 – PLEASE NOTE THIS ALTERNATE DATE

CLASS CANCELLED THURSDAY, SEPTEMBER 20

Discuss the **Bella Terra** case analysis. Secondary interests. Retail and other leasing. Entrepreneur firms large and small, how investors select entrepreneur partners.

Guest Speakers

Verdun Perry, Co-Head of Blackstone Strategic Partners and Mark Burton, Managing Director and Investment Committee member of the Strategic Partners real estate funds. “Entrepreneurship in a Private Equity Team” – Mr. Perry has

maintained a leadership role in the growth of Blackstone's dedicated secondary private markets group from its inception in 2000 to its current market-leading platform. Strategic Partners has raised over \$31 billion of capital since 2000 and completed over 1,100 transactions to acquire over 3,300 limited partnership interests, including a substantial number of real estate investments. In 2015, the group completed the purchase of approximately \$3 billion of real estate interests in 43 real estate funds from the California Public Employees Retirement System. In 2017, the group closed 149 deals across 1,200 interests and 859 funds. Mr. Perry and Mr. Burton have extensive experience working with entrepreneurs within the firm and as investors with entrepreneurs across a broadly diversified portfolio of real estate, infrastructure, private equity and other private market interests. SP closed its second infrastructure fund at \$1.75 billion in 2018.

Assignment 4:

- **Case – The Schneider Building – #2 in Reading Package.** Prepare an overview and evaluation of the case and the decisions Jonathan is facing. Materials available on Canvas. Due Sept 26, 12PM.

Readings:

Reading Package - # 17, 18, 19, 20 – these discuss demand for and generation of real estate property uses
Linneman – Chapter 24 and Supplement I
Poorvu – Chapters 7, 8
Ferguson – Chapters 8, 10

SEPTEMBER 27

Discuss **The Schneider Building** case. Discuss class ideas of real estate investment niches or themes and competitive advantages. Economic and demographic drivers of real estate value – it's not just numbers; agglomeration, city planning, mixed use development, urban and sub-urban edge cities vs further out suburbs – what people, e.g. the millennials and boomers, and what employers look for. Skills needed to transition from transaction-oriented activities to leadership and management of a growing organization. Building an entrepreneurial organization for the long term – culture, business planning, etc.

Guest Speaker

Tracey Appelbaum is a Co-Founder and Managing Principal at Bedrock Real Estate Partners LLC in Manhattan. Bedrock is a privately held investment manager specializing in the development and acquisition of urban rental apartments and mixed-use projects from Boston to Washington, DC with a particular focus in New York City. BedRock Real Estate Partners LLC actively participates in real estate joint ventures as a limited partner or co-general partner. Since inception, BedRock has invested in over 1.75 million square feet of apartment and retail space, with assets under management of over \$1.2 billion. Previously, Ms. Appelbaum served as Principal at MacFarlane Partners, responsible for their urban investment activities in the eastern US. Before joining MacFarlane Partners, she was Vice President of Development for AvalonBay Communities where she was responsible for the New York metropolitan region. She began her real estate career as a product manager for Equitable Real Estate Investment Management. Ms. Appelbaum graduated *cum laude* with a BS in Economics and an MBA from The Wharton School. She currently serves on the Executive Committee and Board of Directors for the JCC in Manhattan.

Assignment 5:

- **Case – Central Place.** Prepare a short memorandum addressing the questions raised in the Central Place write-up. Provide a value for buyout of the institutional land investor. Materials available on Canvas. Due Oct 8, 12PM.

Readings:

Linneman – Chapter 26
Poorvu – Chapter 9
Ferguson – Chapter 11 & epilogue

NO CLASS OCTOBER 4

OCTOBER 11 – FINAL CLASS

Present **Central Place** case evaluation. Growing real estate organizations for large scale activity.

Guest Speaker

Dean Cinkala, former Principal and head of urban development, JBG Companies, Chevy Chase, MD; Advisor, Georgetown University McDonough School of Business.

“Joint Ventures with Institutional Equity Partners”; **Central Place**, Arlington, VA; 31 stories, 525,000 square feet of office space, 377 residences and 45,000 square feet of retail space with public plazas under development over the Rosslyn, VA metro station; tallest project in the DC area. Recapitalizing with a new equity partner as well as creating the significant organization assembled to execute this project will be discussed.

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