REAL ESTATE DEVELOPMENT and ENTREPRENEURSHIP

Fall semester September 24 – December 17, 2013

COURSE OVERVIEW:

- This course will introduce students to the broad aspects of real estate development from an entrepreneurial perspective. It is directed to students interested in real estate development from the point of view of three classes of investors:
  - an entrepreneurial investor, looking to buy a coop, condo or small property for individual use or rental
  - a working general partner of a small group of investors, who will actually manage &/or be responsible for overseeing the property after purchase
  - a passive outside investor, who may be searching for an investment that is limited in liability to the original investment

- Operations involves the decisions made at the operating level of a business or project to assure the attainment of higher level goals and strategies. In real estate development, these operating decisions will determine whether or not a deal will be successful and meet overall financial goals. Many students may choose to pursue investments in real estate, and often to actually operate and manage the properties. Although some students will not work full-time in the real estate industry, property investments will arise as opportunities to increase passive income and wealth. Understanding how these deals are created and managed will allow investors to choose deals with the highest probability of success. The real estate topics discussed in the course will include all types of development: residential, hotel, office, retail, land and industrial properties. In addition to case studies, class lectures and discussions, some outstanding entrepreneurial developers will be invited as guest speakers to reinforce the ideas taught in class. The class will include a real estate development project, with group presentations to the class and potential outside investors. Students are required to attend an outside professional real estate meeting, and there is a site visit to a current development property.
TOPICS:

The topics of the course will follow the primary focus of developing a real estate project. Each of the major stages will be addressed, identifying alternatives and analytical models for decision making.

- Finding available deals and selecting the right project
- Valuing alternative properties and projects
- Projecting future cash flow, NOI and appreciated property values
- Financing the deal; alternative sources for capital
- Managing the stages of the project from initial analysis, making offers, dealing with buyers, sellers, brokers and lawyers, creating proforma operating statements, negotiating the contract and getting through the closing.
- Creating added value by changing property use, appearance, and income
- Refinancing, selling and other exit strategies; Optimizing tax liabilities, property exchanges, long-term leasing and legal forms of postponing and avoiding tax and closing obligations.

TEXT AND READINGS:

The text (OPTIONAL), Real Estate Development - Principles and Process (RED), is a very complete text on the topic. It is probably more intensive than the average real estate investor needs, but the extreme depth and scope of the book will assure coverage of almost all real estate issues and types of properties. This is an excellent reference book to keep and use beyond this course. Your need (desire) for this will determine if you buy it.

The topics are designed around the concept of the development process. This text captures an understanding of the process with a model of real estate development that first studies the interrelated activities that constitute the process. With such knowledge in hand, one can then proceed to understand the particular product types and local markets necessary for successful development.

The Real Estate Game (REG) (REQUIRED) is a book about the real estate business, written in simple terms, and using the analogy of a game (rules and key players) to demonstrate how to take advantage of emerging opportunities in the property market. It is written in a personal and enthusiastic manner, and is useful to investors interested in properties ranging from small houses to large, multi-use projects.

Timing the Real Estate Market (TREM) (REQUIRED. Now an eBook, info on Blackboard) expresses the opinion that timing is the most important aspect of real estate development and investing. Clear strategies are discussed as to how to identify and take advantage of the crucial major trends behind real estate cycles.
MEETINGS:  Tuesday evenings 6:00 - 9:00PM   Room KMC

INSTRUCTOR:  Dr. Harry Chernoff, Room KMC 8-68
              998-0289;  hchernof@stern.nyu.edu
              website:  www.stern.nyu.edu/om/faculty/chernoff

- Professor Chernoff has owned and operated a real estate development company, HMS Properties, Inc., since 1980. Many of the examples discussed in class will come from actual projects that he has completed.

OFFICE HOURS:  Tuesday, 4:00 - 5:30PM, or by appointment

(OPTIONAL TEXT)
Real Estate Development: Principles and Process; Miles, Bernes, Eppli and Weiss; Fourth Edition; ULI- The Urban Land Institute; 2007.  (RED: P&P)

REQUIRED COURSE READINGS:

The Real Estate Game; William Poorvu; The Free Press; 1999.  (REG)

Timing the Real Estate Market; Craig Hall; McGraw Hill; 2004  (TREM) Now an eBook. Purchase information on Blackboard.

OPTIONAL READING:
1. Rich Dad, Poor Dad; R. Kiyosaki; Warner Books; 1998
2. Confessions of a Real Estate Entrepreneur; James A. Randel; McGraw Hill; 2006
4. The Coming Crash in the Housing Market; John Talbot; McGraw Hill; 2004
5. The Lexus and the Olive Tree; Thomas Friedman; Anchor Books edition; 2000
6. Against The Gods (The Story of Risk); Peter Bernstein; John Wiley & Sons; 1998
7. The Power Broker; Robert Caro; Vintage Books; 1975
8. A Random Walk Down Wall Street; Burton Malkiel; W. W. Norton & Company; 2003

TEACHING ASSISTANT:  Shubha Tandon <st1395@stern.nyu.edu>
                        KMC 7-158, Tel: 8-4007
                        cell:
                        Office Hours:  TBA
GROUPS

In the first class you will form groups of four (4) or possibly five students each. Some of the Case Analyses, and the Project Presentations will be performed/submitted by groups. It is expected that all members will have an input on all papers and all work, i.e. the assignments should not be broken up among the group. Anyone not sharing in the group work will not get credit for that assignment. Let me know about any problems early on.

COURSE WORK AND REQUIREMENTS

- **Case Analyses**

Assignments will include five real estate cases throughout the semester. You will analyze all of these cases, and choose four of the five cases to actually prepare and submit a written presentation. Two of these analyses will be done individually, and two by groups. These assignments should be 3-5 pages of text in length (not including any appendices), and be submitted at the beginning of the session on which they are due. Keep a copy for your reference during class. All members are expected to participate in each assignment, and understand anything that is presented in your group paper. If you miss your group meeting and/or do not participate in the assignment, you are expected to do the work on your own, and submit it separately. For the location of the cases, see the Course Documents section in Blackboard.

- **Term Project**

A term project (value: 35% of your course grade) will be prepared and presented by groups, focusing on a pitch to investors to invest money in your deal. The deal will include the purchase and planning of a real estate development project. The presentations will include an oral final presentation, and will be presented to the class and Guest Investors in Sessions 10 and 11. There will also be three (3) written presentations submitted at specific partial completion points in the project.

The topic (property) will be selected by the group, and must be approved by the professor. Your proposal for your project will be submitted to me at the beginning of class in Session 3, October 8th. The written presentations will be submitted as follows:
<table>
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<th>Due date</th>
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| Session 3 October 8 | Identification of property and Initial outline  
Value: 5%  
1 page property address, description of existing property, brief description of the development plan, section headings that will be in the final paper (but no details or analysis necessary) |
| Session 5 October 22 | The Deal with the Investor(s)  
Value: 5%  
1-2 pages explain the total project cost, how much is to be borrowed, how much the Investor is investing, what the ownership split is, expected returns for Investor, and detailed ‘waterfall’ of profit distribution. |
| Session 7 November 5 | Final Outline  
Value: 10%  
No page limit full outline of the project, all sections outlined including details and analyses, projections, etc. |

**Oral presentation to Investor (December 3 or 10)**  
Value: 15%

**Major Focus** Although your project will have to address everything described, the focus of your presentation will be a pitch to investor(s) to invest money in your deal. You will have to explain how much you are asking for and what the investor will get for this investment. You can choose any development project you wish or develop a new strategy for an existing building. This means any type of property (residential, office, industrial, retail, hotel, or combination of these) and it should be in a location that you can actually visit. The deal should be a real one, and be for sale currently, but you do not actually have to be interested in participating in the deal (real world). You might feel it is too risky, or provides too small a projected return. In these cases, you may wish to propose a reduction in offering price. (Obviously, you will have to participate in the preparation of the project as it pertains to our course.) Possible sources for investment projects for purchase are broker websites, the real estate section of local newspapers (i.e. New York Times, etc.) and pitchbooks from local realtors/brokers.
I propose that the deals should be of a size that is consistent with our course focus, relatively small and entrepreneurially oriented. A comfortable range might be $500,000 to $5 million. Note that if you choose an apartment building in NYC, you should become familiar with the Rent Guidelines Board and its determination of rent increases, as well as understand the rent control and rent stabilization laws and their financial impact, if any, on the property you have chosen. Included should be a clear identification of the opportunity that you see in the development, and a clear plan for exploiting this opportunity. You will need to describe the deal, show analysis of its viability, and identify all construction, changes in use, etc. that are planned. Alternative strategies for the property are always useful to include. Analysis should be qualitative and quantitative. It is expected that you will calculate and show cash flow projections and returns (for both the property and the investor). You should estimate the amount of resources necessary to bring the deal to completion, and determine appropriate target leverage levels.

An oral (in class) presentation (20-30 minutes) will be delivered to prospective investors (guest investors). The particular investor you will be presenting to will be identified and described at least a week prior to your presentation. The slide deck of your presentation must be submitted at least a week prior to your presentation date. This will be given to the class and the investors, so that we can understand the deal and prepare for the presentation. It is planned that these presentations will take place on two evenings (Session 10 and 11).

- **Outside Activity (Meeting)**

An understanding of the political process associated with real estate development is important. Students are required to attend at least one public meeting of a governmental agency at which the major topic involves real estate. Acceptable meetings include Architectural Review Board, City Planning Commission, Community Redevelopment Agency, City Council, Board of Standards and Appeals, Zoning Board, Legal Proceeding and Rent Guidelines Board. A one page report on the meeting is required and should cover the purpose of the meeting and its impact on the development process. By October 29th (Session 6), you will submit the name and date of the meeting you plan to attend (or have attended). The Report is to be submitted before or on the last night of class.
GRADING

Class Participation, Attendance 5%
Four Case Analyses (Can use best 4 of 5 assigned) 20%
Term Project
  Initial Outline  5%
  Deal for Investor  5%
  Final Outline  10%
  Oral Presentation to Investor  15%

Mid Term Exam (in class)  35%
Outside Meeting – one page summary  5%

CLASS PARTICIPATION AND ATTENDANCE (keep in mind: 5 points for this section)

The development of speaking and listening skills is considered an important part of your evaluation in this course. Please use the following guidelines to determine your effectiveness in class participation:

- Your comments should contribute meaningfully to learning in case discussions and lectures
- There are no stupid questions
- Incomplete points or “one-word answers” will not get credit. Well defended and well thought out points will get due credit.
- There may be cold-calling. If you have not been able to prepare a case, or if you are uncomfortable with being called on in a particular class, please let the instructor know in advance of the class.
- There are no alternative assignments in lieu of class participation.
- You are expected to attend all classes. If you find that you are unable to make a class, please notify the professor in advance. Please sit in your selected seat, as per seating chart, for all classes. Bring and display name plates for all classes.

CLASS WEBSITE AND HOMEPAGE

The class website has been created on NYUClasses. It may be accessed from the login page
http://sternnewclasses.nyu.edu

- Accessing this website will allow you to download all of the files related to the course.
SESSION 1: (Tuesday, September 24th, 6:00-9:00pm)

INTRODUCTION –WHY IS REAL ESTATE SO ATTRACTIVE?

1. Read Chapter 1, 2 and 3 in Real Estate Development: Principles and Process (RED:P&P) which introduce the issues and process of RE development.
2. The benefit of passive income: How to get out of the Rat Race (some of the concepts discussed in “Rich Dad, Poor Dad” will be presented. This is on the optional reading list.)
3. Read the American Dream case (HBS 9-390-089) on Harvard Business Online Website (see Course Documents in NYU Classes)
4. The following questions will help in analyzing the case:
   a. How will the Hanlon’s financial plan be affected by their real estate decision? How will the decision affect their lifestyle?
   b. What risks face the Hanlons? What can they do to manage these risks?

SESSION 2: (Tuesday, October 1st)

FINDING REAL ESTATE OPPORTUNITIES

1. Read (Skim) Part II (Ch 4, 5 and 6) on the history of RE development (RED:P&P).
2. Read, analyze and be prepared to discuss the American Dream case (HBS 9-390-089 on Harvard Business Online Website). This case examines some of the basic issues confronting the Hanlons as they analyze their housing alternatives. These issues are very common to people buying a home, and you may have experienced some of these issues personally.
3. **SUBMIT AS CASE ANALYSIS #1 (to be done individually):** Analyze the Hanlon’s situation, identify the key issues involved in their decision, and make a recommendation to them. Support your recommendation with any assumptions you make, analysis of alternatives, and sensitivity analysis. Use an appendix for any numerical calculations. (See the general description of these case analyses in the syllabus.)
4. Introduction of set-ups, terminology and analysis techniques.
SESSION 3: (Tuesday, October 8th)

ANALYZING THE DEAL, PROJECTING CASH FLOW AND DETERMINING VALUE

1. Read Chapters 10, 11 and 12 on bringing ideas to reality in RED:P&P.
2. Read Chapters 1 and 2 in The Real Estate Game (REG)
3. **SUBMIT AS CASE ANALYSIS # 2 (to be done individually):** Read and analyze the five set-ups included in Opportunities in Real Estate. Do opportunities exist in these potential deals? How could they be exploited?
4. **TERM PROJECT:** Your group should **SUBMIT** a written proposal for the term project at the beginning of class. It should include the address of the property, existing conditions, a brief discussion of your planned development, and an initial outline including headings for all sections that will be in the final project (but no details or analyses are necessary) (1 page).

SESSION 4: (Tuesday, October 15th)

CREATING ADDED VALUE BY CHANGING USAGE, APPEARANCE AND INCOME

1. Read Parts 4, 5 and 6 in TREM. This includes chapters 11-16.
2. Read Chapters 6, 7 and 8 in REG.
3. In addition to standard buy and sell mechanisms, we will discuss other alternatives such as long-term leasing, flipping and holding property.

LEGAL RELATIONSHIPS AND STRATEGIES

4. In this class we will welcome Mr. Allan Berlowitz, Esq., who will discuss the strategies concerning working with attorneys in real estate development and management scenarios. What qualities to look for in an attorney, and what expectations you should have are crucial to effective legal dealings with buyers, sellers and tenants. Proper examination and preparation of leases are important to secure positive outcomes of future potential legal proceedings.
5. Read, analyze and be prepared to discuss the three short legal cases. Mr. Berlowitz and other Guest Attorneys will review these cases with the class, argue the case, and highlight the important aspects.
SESSION 5: (Tuesday, October 22nd)

FINDING OPPORTUNITIES THROUGH MORE UNUSUAL PROPERTIES

1. Read Timing the Real Estate Market (TREM), Parts 1-3. This includes Ch 1-10.
2. Submit the name (date and location) of the Professional meeting you plan to attend (by hand-in at the beginning of class, or by email prior to class).
3. Read the 286 Spring Street case. Try to understand the history of this building and the current situation. We will discuss this real estate development project in class. Next week we will actually visit the property on Spring Street.
4. Often the choice of entity which will own a property is unclear. In the second half of this session we will discuss the alternative entity choices and how to determine the best one for a specific deal.
5. Also, in this class session we will discuss some of the important aspects of a Due Diligence list, and the important features in preparing and negotiating a Purchase and Sale contract.
6. TERM PROJECT: SUBMIT a description of the Deal being offered to the Investor at the beginning of class (or prior by email). This should contain calculations of the total project cost, how much is to be borrowed, how much you are asking the Investor to invest, the proposed ownership split, expected returns for the Investor, and detailed waterfall of profit distribution (1-2 pages).

SESSION 6: (Tuesday, October 29th)

BUYING AND SELLING: THE DIFFERENT OPERATING PROCESSES

1. Read the Revere Street case (HBS 9-800-147; access through the HB Online site). This case involves the finding and acquiring of a small income producing property.
2. SUBMIT AS CASE ANALYSIS # 3 (Group paper): Analyze the Revere Street case. Organize your analysis by answering the following 4 questions:
   a. How did Alexander search for his property?
   b. How would you evaluate the Revere Street property? What are the risks and rewards?
   c. How would you evaluate Alexander’s search for a mortgage?
   d. What do the numbers look like? Should Alexander make this investment?
3. Read Chapters 16, 17 and 18 on planning and analysis in RED:P&P.
4. Read Chapters 3, 4 and 5 in REG.
5. For this class we will have a Guest Speaker, Mr. Kit McQuiston, who will discuss a recent real estate development project of his in downtown Manhattan.
SESSION 7: (Tuesday, November 5th)
1. **This night we will meet at 6:00pm at 286 Spring Street, on the 6th floor.** The building is located on the SE corner of Spring Street and Hudson Street (it is an L-shaped building that surrounds a parking lot).
2. After we visit the building, we will report back to our classroom at Stern for further discussion.
3. In the second half of this class we will discuss buying property in new areas, places that the developer may be unfamiliar with. Here the importance of broker relationships is intensified. Examples of retail and office development opportunities in the Las Vegas market will be discussed.
4. Read and analyze the Spanish Trails case.
5. **SUBMIT AS CASE ANALYSIS #4 (Group paper)** Follow the questions at the end of the case as a guide for your analysis.
6. Cap rate changes and the resultant valuation changes will be examined.
7. **TERM PROJECT: SUBMIT** a completed outline of the Group’s Term Project at the beginning of class (or prior by email). This outline should contain the complete project and each section should have some details and projections.
8. Next week is our Midterm exam. In Session 7 in NYU Classes you will find some material that will be helpful to your preparation. There is a list of real estate vocabulary in the vocab doc. Also, there are some practice short answer questions (with answers). See if you have any questions about any of these terms or questions, and if so, ask about them in Session 7.

SESSION 8: (Tuesday, November 12th)
1. In the first part of this session we will take a **Mid-term exam.** Details of the test will be discussed prior to this date.
2. After the midterm we will discuss developing hotel properties and the Chelsea Inn.
3. Read the Chelsea Inn case. In class we will discuss this unique topic of hotel properties, the specific choice of ownership entity for the Chelsea Inn, and the resulting advantages and disadvantages. Answer the five questions at the end of the case.
4. Pricing techniques that optimize supply and demand factors (Yield Management), will be discussed.
SESSION 9: (Tuesday, November 19th)

SKYSCRAPER- THE APPLICATION OF PROJECT MANAGEMENT

1. Read Chapters 19 and 20 in RED:P&P on implementing the development.
2. Read “Advanced Tools for Project Scheduling” and “Managing and Controlling Project Resources”; Karen A. Brown; McGrawHill, Primus Online e-book (see Course Documents for purchase and access directions)
3. In preparation for this session you should view the video Skyscraper, depicting William Zeckendorf’s three year project constructing a skyscraper in Manhattan.
4. Our guest speaker will be Mr. Dominic Fonti, the head of HRH (at that time), the construction company that actually built the property. Mr. Fonti will help us understand some of the complexities in building a skyscraper.
5. Read, analyze, and be prepared to discuss the Horizon Builders case. Identify all of the tasks involved in one of their home constructions, list the immediate predecessors of each task, and note the duration of each task. All information you need is provided in the case.
6. In the second half of the class we will examine the Project Management issues involved in the Horizon Builders case.
7. **SUBMIT AS CASE ANALYSIS #5 (Group paper):** Develop a network diagram for Horizon’s home construction and identify the critical path. Answer the questions at the end of the case.

THERE IS NO CLASS TUESDAY NOVEMBER 26th – THANKSGIVING

SESSION 10: (Tuesday, December 3rd)

ATTRACTING EQUITY INVESTORS

1. In this session we will begin our student group oral presentations to a potential investor. Groups will present their proposals to a guest investor, followed by Q&A. Guest investors to be announced.
2. Read Chapters 7, 8 and 9 in RED:P&P on financing the deals
SESSION 11:  (Tuesday, December 10th)
   Continuation of the In-Class student group oral presentations

SESSION 12:  (Tuesday, December 17th)
UNCERTAINTY IN THE MARKET
   1. Topics will include the real estate market recession, supply and demand, zoning effects and the Shepherd House development.
   2. Read Chapters 21, 22 and 23 in RED:P&P on making deals successful.
   3. Read Chapter 9 in REG which summarizes the Real Estate Game.
   4. Read Part 6 in TREM, including Chapters 17 and 18.
   5. Submit the one-page write-up of your Professional Meeting.
   6. As a review of the course, we will discuss the current conditions of the RE market.