

**STERN SCHOOL OF BUSINESS
NEW YORK UNIVERSITY**

COURSE SYLLABUS OPMG-UB.0060.01

REAL ESTATE DEVELOPMENT AND ENTREPRENEURSHIP

Spring 2015 Semester

COURSE OVERVIEW:

This course will introduce students to the broad aspects of investing in real estate. 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/managing member 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 in real estate

Operations involve 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 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 many types of development projects residential, office, retail and industrial properties. In addition to case studies, class lectures and discussions, some outstanding guest speakers will be invited to reinforce the ideas taught in class. The class will include a real estate development term project at the end of the semester, with group presentations to the class and guest 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 life cycle of a real estate project. Major stages in the investment process will be addressed, identifying alternatives and analytical models for decision-making. Topics covered will include:

- Sourcing deals and selecting the right project
- Valuing alternative projects; understanding the information and making better investment decisions
- Building an accurate pro forma investment model; projecting future cash flow, NOI and IRR values
- Raising capital and financing the deal; analyzing different partnership structures
- Dealing with sellers, brokers and service professionals
- Negotiating purchase and sale agreements and examining key legal issues and strategies
- Developing an acquisitions thesis and adding value before and after purchase
- Project managing your investment
- Refinancing, selling and other exit strategies

TEXT AND READINGS:

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**) 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.

Barron's Dictionary of Real Estate Terms, 8th Ed (BD) (**OPTIONAL**) is an excellent and handy quick reference source to the real estate industry's terminology

Real Estate Development - Principles and Process (RED) (**OPTIONAL**) is a great reference book to keep and use beyond this course. Your need (desire) for this will determine if you buy it. 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. 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.

CLASSES:

INSTRUCTOR: Benjamin Atkins, Esq., Room 8-171
batkins@stern.nyu.edu

- Professor Atkins is the President of Abingdon Square Partners, a real estate investment and development company based in Brooklyn, NY. He has owned and operated real estate development companies since 2002. Many of the examples discussed in class will come from actual projects.

OFFICE HOURS:

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 in NYUClasses.

“Financial Analysis of Real Property Investments’ by William Poorvu. (This is an article available on the Harvard Business Review Online Website. See the HBR Coursepack link below for our course)

Harvard Business Review Coursepack link:

<https://cb.hbsp.harvard.edu/cbmp/access/33521072>

(OPTIONAL TEXTS)

Barron’s Dictionary of Real Estate Terms, Paperback 8th Ed.; Jack Friedman, Jack Harris and J. Bruce Lindeman; 2013 (BD) - RECOMMENDED

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

“Financial Analysis of Real Property Investments’ by William Poorvu. (379193-PDF-ENG on Harvard Business Review Online Website)

OPTIONAL READING:

1. Confessions of a Real Estate Entrepreneur; James A. Randel; McGraw Hill; 2006
2. What Every Real Estate Investor Needs to Know About Cash Flow, Frank Gallinelli, McGraw Hill, 2009
3. A Pattern Language, Christopher Alexander, Oxford University Press, 1977
4. The Death and Life of Great American Cities; Jane Jacobs; Vintage Books Edition; 1992
5. The Power Broker; Robert Caro; Vintage Books; 1975

TEACHING ASSISTANT:

GROUPS

In the second class you will form **groups of three to four students each**. Some of the Case Analyses, as well as the Final Project Presentations will be performed/submitted by groups. It is expected that all group members will have an input on all papers and all work, (i.e., do not divide up assignments for completion by only certain group members). 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 case studies 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. You are welcome to submit all five, in which case your highest four grades will be used. Three of these analyses will be done individually, and two by groups. These assignments should be 3-5 pages of text in length (double-spaced, 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 group 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. Two of the cases will be available through the Harvard Business Review Coursepack. The remaining cases will be posted in the Lessons section in NYUClasses prior to the relevant Session.

- **Term Project**

A Final Term Project 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 be oral presentations using slides, and will be presented to the class and guest investors in Sessions 10 and 11. All group members must present during the oral presentation. There will also be three (3) written presentations submitted at specific partial completion points in the project.

The 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 4**. The written presentations will be submitted as follows:

Due date			Include
Session 4	Identification of property and initial outline	1 page	property address, description of existing property and brief description of the development plan (but no details or analysis necessary)
Session 6	The Deal with the Investor(s)	1-2 pages	outline the basic investment strategy, total project cost, how much equity the Investor will be investing and the amount of debt, what the ownership split is, the expected returns for Investor, and detailed ‘waterfall’ distribution of profits It should include the section headings that will be in the final paper
Session 9	Final Outline	No page limit	full outline of the project, all sections outlined including strategy, pro forma (detailed analysis and projections), location and demographics, etc.

Oral Presentations to Investors - Session 11 and 12 (November 12th and 19th)

Major Focus Although your project will have to address everything described, the focus of your presentation will be a pitch to the investors 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 type of project you wish and any asset class of property (residential, office, industrial, retail, or combination of these), however, it **SHOULD NOT** be a “ground up” development (new construction) project. In addition, it should be in a location that you can actually visit. The deal should be a real one, and be currently for sale. Don’t worry if your project is no longer available by the time of presentations or if you determine during your preparation that you no longer like the deal. You may come to feel that it is too risky, or provides too small a projected return. The primary goal is to prepare a detailed and well-crafted investor pitch. You should feel free to propose in your pitch that the deal only be done if there is a change in terms that make the deal attractive, such as a reduction in the purchase price. Possible sources to find potential investment projects are broker websites, the real estate section of local newspapers (i.e. New York Times, etc.) “for sale” signs and the offices of local realtors/brokers. More information on possible sources will be discussed in class.

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 for the purchase price is **\$500,000 to \$5 million**. Included should be a clear identification of the opportunity that you see in the development, and a clear plan for realizing this opportunity. You will need to describe the deal, show analysis of its viability, and identify all construction/renovation, leasing, 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. Note that if you choose an apartment building in NYC, your property may be subject to rent control and rent stabilization laws. You should become familiar with the Rent Guidelines Board and its determination of rent increases, as well as understand their financial impact, if any, on the property you have chosen.

An oral (in class) presentation (20-30 minutes per group) will be delivered to prospective guest investors. The particular investors 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 over two evenings (Sessions 11 and 12).

Outside 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 City Planning Commission, Board of Standards and Appeals, Landmarks Preservation Commission, local Community Board meetings (either full board or a subcommittee), City Council meeting, Rent Guidelines Board or a meeting of your local governmental body with respect to a real estate matter. If you have a question on the acceptability of a meeting please check with the TA before attending. 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 **Session 6**, you will submit the name and date of the meeting you plan to attend (or have attended). **It is to be submitted on or before the final night of class.**

GRADING

Class Participation, Attendance	5%
Four Case Analyses (Can use best 4 of 5 assigned)	20%
Term Project	
Includes: Initial Outline, Deal for Investor, Final Outline and Oral Presentation to Investor	35%
Mid Term Exam (in class Session 7)	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 bad questions
- Incomplete points or “one-word answers” will not get credit. Well thought out points that add to the class discussion 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 if you have them.

CLASS WEBSITE AND HOMEPAGE

The class website has been created on NYUClasses. Accessing this website will allow you to download all of the files related to the course. **Please check this regularly** as course assignments and other information will be added to the site throughout the semester.

SYLLABUS

OPERATIONS IN REAL ESTATE DEVELOPMENT Spring Semester 2015

SESSION 1:

INTRODUCTION –WHY DO WE INVEST IN REAL ESTATE?

1. This class will provide an introductory overview of the real estate development process and the macro and micro forces that drive real estate values.
2. Discussion of course overview and requirements.
3. Introduction to the American Dream case (390089-PDF-ENG on Harvard Business Review Online Website) we will be discussing in Session 2.
4. 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.

SESSION 2:

FINDING REAL ESTATE OPPORTUNITIES

1. Read, analyze and be prepared to discuss the American Dream case (access through the Coursepack on the Harvard Business Review Online site). 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.
2. **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 NYU CLASSES for a list of the points and questions to address when analyzing the case*)
3. Introduction to the real estate "set-up"; key terminology and analytic techniques.
4. Read (Skim) Part II (Ch 4, 5 and 6) on the history of RE development (RED:P&P).

SESSION 3:

ANALYZING THE DEAL, THE SET-UP, PROJECTING CASH FLOW AND DETERMINING VALUE

1. Read the introduction and Cash Flow sections of "Financial Analysis of Real Property Investments" by William Poorvu (access through the HBR Coursepack).
2. **SUBMIT AS CASE ANALYSIS # 2 (to be done individually):** Read and analyze the three set-ups included in Session 3 in NYUClasses. Do opportunities exist in these potential deals? What would your strategy be for these deals? (*SEE NYU CLASSES for a list of the points and questions to address when analyzing the case*)

3. In this class we will examine the structure of the set-up in greater detail. Two guest lecturers, Mehul Patel and Brett Ripka of Equator Capital Management, will discuss underwriting issues, terminology and building a solid and flexible model for pro-forma analyses. They will also examine sponsor/investor waterfalls and splits.
4. Read Chapters 1 and 2 in The Real Estate Game (REG).

SESSION 4:

PURCHASING YOUR FIRST INVESTMENT PROPERTY

1. Read the Pinckney Street case (access through the Coursepack on the Harvard Business Review Online site). This case involves the finding and acquiring of a small income producing property.
2. **SUBMIT AS CASE ANALYSIS # 3 (to be done individually):** Analyze the Pinckney Street case. (*SEE NYU CLASSES for a list of the points and questions to address when analyzing the case*).
3. We will begin this class with a workshop on the real estate “set-up”. In the second half of the class we will discuss and analyze the Pinckney Street case.
4. **TERM PROJECT SUBMISSION #1:** 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).
5. Read Parts 4, 5 and 6 in TREM. This includes chapters 11-16.
6. Read Chapters 6, 7 and 8 in REG.

SESSION 5:

FINANCING YOUR PROJECT; LEGAL ISSUES AND STRATEGIES

1. We will begin this class with a discussion of financing your project and a brief financing workshop (groups). In the second half of the class we will hear from an experienced real estate transactions attorney (TBD), who will discuss the legal issues and strategies arising during the acquisition process, including attorney selection critical issues to consider at the early stages of the negotiating process, and strategies for dealing with buyers, sellers and lenders.
2. Read, analyze and be prepared to discuss the short legal case, which will be distributed prior to the class.
3. Read Chapters 3, 4 and 5 in REG.

SESSION 6:

FINDING OPPORTUNITIES THROUGH MORE UNUSUAL PROPERTIES

1. Read and analyze the Wynwood, Miami case for class discussion. Details in NYU Classes.
2. In this class we will analyze the Wynwood, Miami case study as a means of understanding the development of an acquisition thesis and how this theory can evolve after purchase. We will discuss capitalizing your real estate project and some of the key issues which arise when raising equity. In the second half of the class we will welcome a guest speaker, Mr. David Behin, Partner and President of

Investment Sales at MNS. Mr. Behin will discuss finding and working with a real estate broker and how to identify emerging markets for acquisitions.

3. **TERM PROJECT SUBMISSION #2: SUBMIT** a description of the deal being offered to the Investors at the beginning of class (or prior by email). This should contain your basic strategy for the deal, 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 distributions. There should also be an initial outline including headings for all sections that will be in the final project (1-2 pages).
4. **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). Please see above and Session 2 in NYUClasses for details and suggestions of professional meetings.
5. **NEXT WEEK is our Midterm exam.** In Session 6 in NYUClasses you will find some material that will be helpful to your preparation. Any questions about midterm preparation will be discussed at the end of Session 6.
6. Read Timing the Real Estate Market (TREM), Parts 1-3. This includes Ch 1-10.

SESSION 7:

1. **Midterm Exam.** Details of the test will be discussed prior to this date.

SESSION 8:

PRESENTING YOUR DEAL TO INVESTORS; PITCHING YOUR DEAL AND CAPITALIZING YOUR PROJECT

1. In this class we will scrutinize in detail two commercial broker Offering Memoranda (OMs) as a means of better understanding how data is presented to potential investors. In preparation for this session you should read and analyze the OMs for 845 Hart Street and 80 Hudson Avenue, which will be posted to NYUClasses prior to the class. What information is provided? What is missing? How do you attempt to digest the information so that that you can create an accurate underwriting model to aid in your decision-making? We will also discuss the differences between an NOI and IRR analysis in greater detail, as well as sensitivities, cap rate changes and the resultant changes in valuation.
2. **SUBMIT AS CASE ANALYSIS # 4 (to be done as a Group):** Read and analyze the OMs for 845 Hart Street and 80 Hudson Avenue. (*SEE NYU CLASSES for a list of the points and questions to address when analyzing the case*)
3. We will begin this class with a short workshop on pitching a deal to prospective investors. Each *group should prepare a short summary* (one paragraph per deal) on a proposed strategy for both properties and be prepared to discuss in class.
4. In the second half of the class I will discuss the concepts involved in "pitching" a deal to investors in greater detail, using the 845 Hart Street property as the proposed deal and the class as the proposed "investor." We will also discuss capitalizing a deal in greater detail and explore the different potential sources of equity for a deal.
5. Read Chapters 7, 8 and 9 in RED:P&P on Financing the Deals.

SESSION 9:

PURCHASING A DISTRESSED ASSET; DUE DILIGENCE ISSUES

1. In this class we will begin with a **short three minute presentation** by each group on their final Term Project, followed by questions. In preparation for these presentations, each group should prepare a ONE PAGE summary of their final term project in Microsoft Powerpoint format. Each summary should include the following discussion points (each group member must speak on at least one of these points):
 - a. Strategy for the investment
 - b. Overview of the deal financials
 - c. Deal with the investors
 - d. Financing
 - e. Location and Demographic overview
2. In the second half of the class we will discuss the Greenpoint Pencil Factory case study as means of better understanding the components involved in purchasing a "distressed" asset. We will also analyze the process of developing a "value added" development plan, and see how that plan can evolve when put into practice. We will conclude the class with a discussion of some of the additional due diligence issues to be aware of during the acquisitions process.
3. **Group Term Projection Submission #3 - SUBMIT a final copy of your Group Term Project.** It can be emailed to me prior to class or submitted in hard copy at the start of the class. This should be a final outline, including the headings that will be in the Final Project and each section should contain detailed analysis, calculations, projections and sensitivities.

SESSION 10:

PROJECT MANAGEMENT OF YOUR REAL ESTATE INVESTMENT

1. **We will begin this class by meeting at 6:30pm at a current development site. Location to be announced.**
2. After we visit the project, we will report back to our classroom at Stern for further discussion.
3. In the second half of this class we will cover the project management of your real estate investment. Issues will include scheduling techniques, best practices, and selection and management of contractors and other vendors, all with an eye towards maximizing project returns and minimizing delays and cost overruns.
4. Read Chapters 19 and 20 in RED:P&P on implementing the development.

SESSION 11:

PITCHING YOUR DEAL TO EQUITY INVESTORS

In this session we will begin our In-Class student group oral presentations to two potential investors. Groups will present their proposals to the guest investors, followed by Q&A. Guest investors to be announced.

SESSION 12

Continuation of the In-Class student group oral presentations.

SESSION 13:

BUYING IN A NEW MARKET

1. **SUBMIT AS CASE ANALYSIS #5 (to be done as a group)** the Spanish Trails, Las Vegas case study. Details in NYUClasses.
2. In this class we will discuss buying property in new areas, particularly places the developer may be unfamiliar with. Here, the importance of your service provider relationships (broker, lawyer, architect, contractor, etc.) is intensified. Examples of retail and office development opportunities in the Las Vegas market will be discussed. Our guest lecturer for this class will be Professor Harry Chernoff, Clinical Associate Professor of Operations Management. Professor Chernoff will discuss the Spanish Trails case, a project which he developed in Las Vegas, NV.
3. Read Chapter 9 in REG which summarizes the Real Estate Game.
Read Chapters 21, 22 and 23 in RED:P&P on making deals successful.

SESSION 14:– **Last day of class.**

Review of course topics and questions.