STERN SCHOOL OF BUSINESS
NEW YORK UNIVERSITY

COURSE SYLLABUS OPMG.GB.2360.10

REAL ESTATE DEVELOPMENT and ENTREPRENEURSHIP

Fall semester September 17 – December 10, 2024 Tuesday evenings

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 course will include a real estate development project, with group presentations to the class and potential

outside investors. Students are required to attend (in-person or virtual) an outside professional real estate meeting, and there may be 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.

REQUIRED READINGS:

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

The Real Estate Game 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; Craig Hall; McGraw Hill; 2004 (TREM) **Now an eBook.** Purchase information in NYUClasses.

Timing the Real Estate Market 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.

REQUIRED CASES:
There is a case packet that you must purchase from Harvard Business Online (See Harvard Coursepack in Brightspace). There are three cases in the coursepack:
The American Dream (HBS 390-089)

Pinckney Street (HBS 813-182)
Lance Johnstone (HBS 808-126)

MEETINGS: Tuesday evenings 6:00 - 9:00PM **ROOM:** KMEC TBD

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: By appointment

TEACHING ASSISTANT: **G**
Contact **<g@stern.nyu.edu>**
Office Hours: TBA , or by appointment

OPTIONAL TEXT
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.

OPTIONAL READING:
1. Rich Dad, Poor Dad; R. Kiyosaki; Warner Books; 1998

2. Dictionary of Real Estate Terms (8th ed); Barron's; Friedman, et al; 2013
3. Confessions of a Real Estate Entrepreneur; James A. Randel; McGraw Hill; 2006
4. The Death and Life of Great American Cities; Jane Jacobs; Vintage Books;1992
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

GROUPS

In the first two classes you will form **groups of 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 prepare and submit a written presentation. Two of these analyses will be done individually, and three by groups. These assignments should be 3-5 pages of text in length (not including any appendices), and be submitted (uploaded to Brightspace) by 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 Brightspace. I will drop the lowest grade of the five analyses (grade based on the best four submissions; 20% of your course grade).

- **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 (in class), and will be presented to the class and Guest Investors in Sessions 10 and 11. There will also be three (3) written presentations submitted (uploaded to Brightspace) 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 (uploaded to Brightspace) by the beginning of class in Session 4.

The presentations will be submitted to Brightspace by the start of class as follows:

Due date			Include
Session 4	Identification of property and Initial outline	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 7	The Deal with the Investor(s)	1-2 pages	explain the total project cost, how much is to be borrowed, how much the Investor is investing, expected time duration, what the ownership split is, expected returns for Investor, and detailed 'waterfall' of profit distribution.
Session 9	Final Slides	No page limit	full **Draft** slide deck of the project, all sections including details and analyses, projections, etc.

Oral presentation to Investor (in class in Sessions 10 and 11)

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 pitch-books 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 $8 million. Note that if you choose an apartment building in NYC, I would suggest ignoring any residential apartment buildings that have RS (Rent Stabilized apartments) given the current laws prohibiting almost all types of 'value-added' strategies. Any RS project must be carefully vetted with me in the beginning of your project. The current rent stabilization laws have extreme financial impact on the deals. Also, do not select a "ground-up" project (constructing a new building on an empty lot), since this type of project is too advanced at this stage in your learning. 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 presentation (15 minutes plus Q&A) 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 (Sessions 10 and 11).

- **Outside Activity (Meeting)**

An understanding of the political process associated with real estate development is important. Students are required to attend (in-person or virtual) 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 **WHAT YOU LEARNED** at 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 uploaded to Assignments in Brightspace by the start of the last 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)	35%
Outside Meeting (virtual or in-person)– 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:

- You are expected to attend all classes.
- Questions and comments should contribute meaningfully to learning in case discussions, break-out room meetings, and lectures
- 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. All classes will be recorded.
- If you find that you are unable to make a class, please notify the professor in advance.

CLASS WEBSITE AND HOMEPAGE

The class website has been created on Brightspace. It may be accessed from the login page

- https://brightspace.nyu.edu/d2l/home
- Accessing this website will allow you to download all of the files related to the course.

ACADEMIC INTEGRITY

Academic integrity is central to our mission as an educational institution. By signing the NYU Stern Code of Conduct when you began the program you pledged to exercise integrity in all aspects of your academic work. That includes a) not engaging in any method or means that gives you or others an unfair advantage and b) clearly acknowledging the work and efforts of others when submitting written work as your own. Behavior inconsistent with the Code of Conduct will be referred to the NYU Judiciary Committee.

EQUITY & INCLUSION

New York University is committed to equal treatment and opportunity for its students and to maintaining an environment free of bias, prejudice, discrimination, and harassment (details on policy and reporting). Taking this further, a goal of this program is to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives with the goal of understanding how others might see situations differently. We expect everyone in the program and this course to be committed to making this an inclusive learning environment for all.

ACCESSIBILITY

Academic accommodations are available for students with disabilities. Please contact the Moses Center for Students with Disabilities (212) 998-4980 or mosescsd@nyuedu for

further information. Students who are requesting academic accommodations are advised to reach out to the Moses Center as early as possible in the semester for assistance.

NYU is committed to providing equal educational opportunity and participation for students with disabilities. If you will require academic accommodation of any kind during the course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Student Accessibility verifying your registration and outlining the accommodations they recommend. If you will need exam accommodations, you must submit a completed Exam Accommodations Form to the Moses Center at least one week prior to the scheduled exam time to be guaranteed accommodations.

WELLNESS
School can be stressful. If you would like help, we encourage you to contact the NYU Wellness Exchange for mental health support. You can reach them 24/7 at 212-443-9999, or via their app. There are also drop-in hours and appointments. Learn more on NYU's Counseling & Wellness Services website.

SYLLABUS

REAL ESTATE DEVELOPMENT AND ENTREPRENEURSHIP
Fall Semester 2024

SESSION 1: (Tuesday, September 17th, 6:00-9:00pm)
INTRODUCTION –WHY IS REAL ESTATE SO ATTRACTIVE?

1. 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.)
2. Read the American Dream case (HBS 9-390-089) on Harvard Business Online Website (see Harvard Coursepack in Brightspace)
3. 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, September 24th)

FINDING REAL ESTATE OPPORTUNITIES

1. 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.
2. **SUBMIT AS CASE ANALYSIS #1 (to be done individually and submitted to Brightspace before the start of class):** 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.)
3. Introduction of set-ups, terminology and analysis techniques.

SESSION 3: (Tuesday, October 1st)

ANALYZING THE DEAL, PROJECTING CASH FLOW AND VALUE

1. Read Chapters 1 and 2 in The Real Estate Game (REG)
2. **SUBMIT AS CASE ANALYSIS # 2 (to be done individually and submitted to Brightspace before the beginning of class):** Read and analyze the three set-ups included in **Three Set-ups** in **Brightspace** Session 3.
   Follow the guidelines described in The Real Estate Game for Back-of-the-Envelope analysis. Include in the analysis for each property: NOI, ROA (Cap rate), Mortgage amount (assume 75% of price), Cash needed, Debt Service (interest only at 5%), CFAF, and ROE. Keep it simple for these first analyses. The purpose is just to practice BOE analysis. Do opportunities exist? Would you be interested in them?
3. We will conduct a brief **workshop** in class including analyzing set-ups, creating pro forma statements and calculating IRR.
4. Form Groups by Session 3

SESSION 4: (Tuesday, October 8th)

ADDING 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.

LEGAL RELATIONSHIPS AND STRATEGIES

In this class we will welcome Mr. Allan Berlowitz, Esq. and Mr. Joshua Fingold, Esq., who will discuss the strategies concerning working with attorneys in real estate development and management scenarios. Very often, real estate disputes will merge with personal disputes. This fact pattern is nominally about a piece of real estate, but the legal fights about ownership and money were impossible to resolve without also considering the interpersonal relationships and motivations of the parties.
In class, we will discuss the practical, real estate and legal issues involved in this saga.

3. Read, analyze and be prepared to discuss the case (**Brightspace** in Session 4)
4. Mr. Berlowitz and Mr. Fingold will discuss the framework for how this case was prepared, review the case facts with the class, argue and discuss the points, and highlight the important aspects of each of the selected sections. Focus: what you can do in your deals to avoid or minimize legal problems.
5. **SUBMIT** (Group submit) Students should answer the questions on the webform located at https://forms.office.com/r/01caVhRRYR.
   Answers are due at 12 PM on Monday, October 7, 2024.
   (Copy TA). Use one file per group, and put your Group # and names at the top.
6. Please direct any questions to Joshua Fingold, Esq. (josh@fingoldlaw.com) or Allan Berlowitz, Esq. (ajberlowitz@gmail.com).
7. **TERM PROJECT**: Your group should **SUBMIT** (**uploaded to Brightspace before the start of class**) a written proposal for the term project by 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 of the project (no details or analyses are necessary) (1 page). **Don't just send me a set-up!**

SESSION 5: (Tuesday, October 15th)

BUYING AND SELLING: THE DIFFERENT OPERATING PROCESSES

1. Read the Pinckney Street case (HBS 9-813-182; access through the HBS Online site). This case involves the finding and acquiring of a small income producing property.
2. **SUBMIT AS CASE ANALYSIS # 3 (to be done by Group and submitted to Brightspace (only one group member needs to upload) before the start of class:**
   Analyze the Pinckney Street case. Organize your analysis by answering the following 4 questions:
   a. How did Edward search for his property?
   b. How would you evaluate the Pinckney Street property? What are the risks and rewards?

c. How would you evaluate Edward's search for a mortgage?
d. What do the numbers look like? Should Edward make this investment?

3. In two weeks you will take your Midterm exam . In Session 6 in **Brightspace** you will find some material that will be helpful to your preparation. 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 your professor.

SESSION 6: (Tuesday, October 22nd)

1. **GUEST SPEAKER :** In the first half of this class we will have a guest speaker, **Mr. Daniel Gabay,** who is a former Stern student from this course, and who has in the past few years started his own development company (DG Development Partners). Daniel will discuss the details of his real estate work focusing on the starting challenges that he faced.
   Mr. Gabay asks that you email him a critique of his talk with feedback.
   dgabay@gmail.com

   FINDING OPPORTUNITIES THROUGH MORE UNUSUAL PROPERTIES

2. Read Timing the Real Estate Market (TREM), Parts 1-3. This includes Ch 1- 10.
3. **SUBMIT (**uploaded to **Brightspace)** the name, date and location of the Professional meeting you plan to attend by the beginning of class.
4. Read Chapters 3, 4 and 5 in REG.
5. Often the choice of entity (the company that actually owns the property) is unclear. In this session we will discuss the alternative entity choices and how to determine the best one for a specific deal.

SESSION 7: (Tuesday, October 29th)

In this session you will take a **MID-TERM EXAM**. The exam is 120 minutes (6:00-8:00). Details of the test will be discussed prior to this date.

TERM PROJECT: SUBMIT your Investor Deal (to be done by Group and uploaded to Brightspace by the start of class**)** which you are offering to the Investor. This should contain calculations of the total project cost, how much is to

be borrowed, how much you are asking the Investor to invest, and how much you, as developers, are investing, the proposed ownership split, expected returns for the Investor, and a detailed description of the waterfall of profit distributions (1-2 pages).

NO CLASS ON TUESDAY NOVEMBER 5th

SESSION 8: (Tuesday, November 12th)

1. In the first half of the class we will review the Midterm and prepare for our presentations with any questions you may have.

This night we will discuss a condo conversion project at 286 Spring Street.

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). Try to do a walk-by before the class.

2. Read the **286 Spring Street case** and Challenges (prior to visiting the building).
3. If you get to see the building, observe the size and location in detail. Think about how the physical shape of the property affects the development.
4. 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.
5. Read and analyze the **Spanish Trails Business Park** case.
6. **SUBMIT AS CASE ANALYSIS #4 (to be done by Group and submitted to Brightspace (only one group member needs to upload) before the start of class:** Analyze the Spanish Trails case. Follow the questions at the end of the case as a guide for your analysis.
7. Cap rate changes and the resultant valuation changes will be examined.

SESSION 9: (Tuesday, November 19th)

MORE SOPHISTICATED ISSUES in REAL ESTATE DEVELOPMENT

1. In preparation for this session you should view the video Skyscraper, depicting William Zeckendorf's three year project constructing a skyscraper in Manhattan.
2. **SUBMIT AS CASE ANALYSIS #5 (to be done by Group and submitted to Brightspace (only one group member needs to upload) before the start of class:** Analyze the Lance Johnstone case. Follow the questions at the end of the case as a guide for your analysis.
3. **TERM PROJECT: SUBMIT** (**to Brightspace)** the current draft of the slide deck of the Group's Term Project by the beginning of class. This should contain the complete project and each section should have some details and projections (but it is a draft, and can be changed or modified before your presentation).

SESSION 10: (Tuesday, November 26th)
ATTRACTING EQUITY INVESTORS

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

SESSION 11: (Tuesday, December 3rd)
ATTRACTING EQUITY INVESTORS

Continuation of the online student group oral presentations

SESSION 12: (Tuesday December 10th)
UNCERTAINTY IN THE MARKET

1. Topics will include the real estate market recession, supply and demand in the NYC area including zoning effects, and uncertain events in partnership relations..
2. Read Chapter 9 in REG which summarizes the Real Estate Game.
3. Read Part 6 in TREM, including Chapters 17 and 18.
4. **Submit (to be done individually and uploaded to Brightspace)** the one-page write–up of your Professional Meeting.
5. As a review of the course, we will discuss the current conditions of the RE market.