Who is William Poorvu?

William is a Boston based professor with more than 35 years of teaching experience at Harvard University where he used real life case studies to demonstrate his practical approach towards learning. He is also a successful real estate investor, having served as managing partner on the boards of numerous real estate companies and REIT’s. In addition to “The Real Estate Game” he also wrote the more recent “Creating and Growing Real Estate Wealth: The 4 Stages to a Lifetime of Success” which explains how to craft a successful long term career in real estate.

Chapter 1: The Game

Poorvu kicks off the book by presenting his concept of the “game diamond”, relating each corner of the diamond to a different deck of cards. Each of these 4 inter-connected decks, namely Properties, Capital Markets, Players, and the External Environment are then drawn / dealt to the “player” of the real estate game. For example, one may inherit a small apartment building from a deceased relative (being dealt a “Property” card) and may want to upgrade the property using bank proceeds (drawing a “Capital Markets” card).

These 4 primary elements will remain constant even as the real estate landscape continues to evolve and the rules to the game change. Finally, we are introduced to the various “periods of play” (closing, development, harvesting etc.) each of which represents a different time period in the typical real estate transaction and has its own dedicated chapter in the book.

Chapter 2: Using Numbers in Real Estate

In this chapter, Poorvu introduces the BOE (back of the envelope) approach which he uses to quickly evaluate a property. He briefly explains some of the simple financial metrics (CFO, ROA, CFAF etc.) underlying this approach and applies them to real life examples in order to convey typical investors’ thought process. He goes on to highlight the importance of performing a competitive analysis, and how to use replacement cost as a metric to measure the likelihood of competitive development.

Chapter 3: From Concept to Commitment

Every deal begins with a concept or “light bulb” moment where an investor has an idea. This initial phase is where the general management process begins for any active investor and often results in the signature of a non-binding letter of commitment which summarizes the broad terms of the deal. As this stage primarily involves information gathering, Poorvu recommends beginner investors stick to basics and work with information that you understand and people whom you trust. An important question to always ask is “why did this deal come to me” as it prompts the individual to assess the deal objectively.

He goes on to describe various negotiation tips (such as being flexible and leaving your ego at home) and recounts various deals and their respective lessons learned. One such lesson centered around the purchaser’s ability to secure off-market deals by allowing the broker the opportunity to participate as an equity partner in the deal.

Chapter 4: From Commitment to Closing

In order to progress from the commitment to closing period there are three main processes the buyer needs to simultaneously manage (making this the riskiest period in a typical deal). These processes include:

- Conducting a comprehensive due diligence investigation
- Obtaining financing from both debt and equity partners and
- Signing the purchase and sale agreement

It is also the purchaser’s last chance to get out of the deal before signing the (legally binding) purchase and sale agreement. Poorvu recounts one such tale where he failed to conduct a thorough due diligence and it ended up costing him dearly. After having acquired a beautiful piece of riverside land, not only was he unable to rezone the land due to environmental legislation, but they found two feet of duck manure at the bottom of the adjacent river! Needless to say, the breadth and “depth” of their due diligence was grossly insufficient.
Chapter 5: Syndications & REIT’s

Whilst many investors enjoy the thrill of the chase and the excitement of closing deals, others prefer to gain exposure to the asset class by investing in more passive investment vehicles such as property syndications or Real Estate Investment Trusts (REIT’s). Poorvu discusses how REIT’s in particular have changed over the years, coming and going in “waves” and becoming increasingly efficient and transparent following each downturn in the economic cycle. The most notable of these changes centered around the realignment of management’s incentives and an increased vigilance towards the use of leverage when supply was strong.

Poorvu also mentions investors’ perceptions towards REIT’s continue to evolve and as such it is important for the REIT industry to guard against what he describes as “fad abuse”. One example included a crafty hotel company which attempted to minimize its tax burden by utilizing a “Paper Clip REIT” structure, thereby enabling the company to own both an operating and a real estate holding company under the same umbrella partnership.

Chapter 6: Development

Real estate development is typically perceived as the riskiest form of investment due to the relatively large capital at stake and numerous other risk factors which need to be simultaneously managed. In this chapter, we are guided through the entire development process from land assembly through to construction and marketing of the asset. Along the way, we hear stories of interesting land leases (the herb garden which today houses the Rockefeller Centre) and nightmarish mistakes made by numerous high-flying developers. He also discusses the to four fundamental pitfalls of the development process (and how to avoid them), namely:

- Inexperience (stick to what you know)
- Undercapitalization (overestimate reserves and “partner up” wisely)
- Ignoring the external environment (be flexible)
- Ego (diversify)

Chapter 7: Operations

“Cash is King” is an old adage often heard in the real stage game. This saying is particularly applicable to highly leveraged investments, where volatile cash flows can drastically increase the risk profile of the deal. Not only can effective management reduce this risk, but it can also unlock any potential hidden value in the property. For this reason, the operations stage is a crucial period during the life cycle of any real estate investment which should not be overlooked because of its relatively boring reputation.

The most effective ways to ensure a steady stream of cash flows is to implement a flexible, water-tight lease agreement with tenants and always maintain a firm yet fair approach toward all tenant-related issues (maintenance, lease negotiations, etc.). This relationship-driven focus not only helps minimize vacancies and tenant turnover, but also increases the likelihood of the tenant renewing / expanding their space in the future.

Chapter 8: The Harvest

The final stage of the real estate game is the harvesting period. At this stage, the investor finally has the opportunity to cash out and realize any profits on the transaction. Whilst it may sound simple, in reality this decision is rather complicated by numerous factors such as investors’ emotional attachment to the asset or other partners not willing to sell. In addition, there are also high transaction costs (capital gains tax, prepayment penalties etc.) which usually deter investors from selling and incentivize them to rather refinance their existing loans.

Chapter 9: Back to the Game

Poorvu concludes by revisiting each corner of his game diamond, emphasizing yet again the importance of building relationships and remaining flexible in order to succeed at playing the real estate game. He goes on to discuss the idea of a “scorecard” i.e. a measure of each individual’s success playing the game. This measure is subjective as investors defining success differently, with varying emphasis on personal responsibilities such as protecting the environment or giving back to the community.

Matthew de Klerk, April 2017