

SHRAVAN PARSI

# THE SCIENCE OF THE DEAL



THE DNA OF MULTIFAMILY & COMMERCIAL REAL ESTATE INVESTING

ForbesBooks

# PRAISE FOR THE SCIENCE OF THE DEAL

“Austin has earned a reputation as a launchpad for brilliant ideas and a magnet for big thinkers. Shravan Parsi is part of this culture of progress. Since beginning his investment career in Texas, Shravan continues to pave the way for business innovation and growth here in the capital city. We all benefit from his ideas about business, development, and the potential of individuals to make an impact ... in Austin and beyond.”

**STEVE ADLER**, mayor of Austin

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“*The Science of the Deal* provides the reader with a powerful guide packed full of technical information, case studies, and stories that will empower the reader to understand what makes a good deal and when to walk away. From his roots in Hyderabad, India, to being the CEO of the successful multifamily and commercial real estate investment firm American Ventures, the wisdom Shravan shares will benefit any entrepreneur.”

**DAVID OSBORN**,

*New York Times* best-selling author of *Wealth Can't Wait*

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“Here is a step-by-step insider’s look into multifamily housing investing. Using Shravan’s five characteristics of success, the reader has a path to follow.”

**PAT NIEKAMP**, founder, *Texas CEO Magazine*

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“A scientific, yet self-reflective, guide that lays out the basics for commercial real estate investing. Shravan takes readers on an entrepreneur’s journey that shows how to become a successful real estate investor. His story is a great read that reminds us that even real estate can be broken down to a science, revealing the DNA that distinguishes a good versus a bad potential investment.”

**SONDRA WENGER**, managing director of a private equity,  
real estate, and infrastructure firm

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“If there is one book I would have a real estate entrepreneur read before starting a multifamily investment firm, this would be it. Frankly, this book provides anyone investing in multifamily housing the roadmap for determining which manager to invest with.”

**MICHAEL SONNENFELDT**, founder, TIGER 21

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“I met Shravan early in his multifamily investing career and saw that he was equipped with a unique stack of skills and mental models different from others in CRE. I have watched the combination of Shravan’s work ethic, analysis of deals, and long-term mindset lead to out-sized success now, and I believe he is just getting started.”

**RICHARD C. WILSON**, CEO, Family Office Club

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# A WORD FROM THE AUTHOR



I moved to the United States from Hyderabad, India, to pursue training and a career in pharmaceutical science. Like many of my peers, I invested in real estate in my spare time. I took an innovative approach to fixing and flipping homes by helping families with poor credit realize the American Dream of owning a home. Eventually, my success in real estate made it too expensive to keep my job as a pharmaceutical scientist. Yearning for something bigger than small-scale residential real estate deals, I founded a commercial real estate firm specializing in multifamily workforce housing. In time, I scaled up and founded American Ventures LLC.

This book tells the story of how I took an entrepreneurial and systematic approach to investing in commercial real estate (CRE) and multifamily housing. I believe the key to success in any CRE investment firm—really, any business—is being systematic. I learned this approach from my training and work in pharmaceutical science. In pivoting from the pharmaceutical industry to the CRE investment

industry, I learned that it is easy enough to apply the insights from science to any field.

Any entrepreneurial venture benefits from using key performance indicators (KPIs) to make critical business decisions. In a CRE firm, you use KPIs to evaluate the financial aspects of an investment deal and create underwriting models that form the backbone of a deal. A critical aspect of developing a good underwriting model is using empirical methods to measure KPIs and analysis to support decisions and manage risk. In chapter 2, I outline building underwriting models with KPIs and develop cases to illustrate how to use them. The chapter includes detailed spreadsheets that I think any firm should use to guide business decisions. You can download those spreadsheets from the book's website.

Creating successful CRE investment deals goes beyond quantitative KPIs. You must also engage in rigorous due diligence to analyze the qualitative aspects of deals. Throughout chapters 2, 4, and 5, I discuss the fundamentals of what to look for in a city or neighborhood and how to systematically evaluate them.

You can't talk about CRE investment without considering risk. To be successful you must distinguish predictable from unpredictable risks. In a systematic approach, you assess and account for predictable risks. You build flexibility into your models and planning to mitigate unpredictable risks. I introduce these issues in chapter 2 and continue discussing them in chapters 4 and 5.

These empirical factors are one aspect of creating successful CRE deals. Other factors include understanding the different roles involved in a multifamily CRE investment firm, hiring for excellence, and developing teamwork. You'll find my thoughts on hiring and supporting the right people in chapter 3. Without a solid team, you're unlikely to accomplish your goals.

In addition to building a solid team, you need to build important qualities in yourself. Developing and practicing curiosity, accelerated learning, grit, discipline, and openness to feedback are just the beginning. Developing these qualities is the focus of chapter 6.

You're also unlikely to reach your goals and appreciate your accomplishments if you focus only on yourself. In fact, your life is less about yourself than it is about the people around you. You will get the most satisfaction out of your work and life if you can do good while creating wealth and apply the wealth you create to doing good. I focus on these topics and more in chapter 7.

In closing the book, I consider the future. What impact is technology having on the CRE industry? What are my plans for American Ventures, my multifamily and commercial real estate investment firm, and how will I accomplish them? What opportunities are developing as globalization continues to open economic activity? Where will changing demographics lead multifamily housing? And as we look into the middle-distance future, where will space exploration lead the CRE industry?

An enduring presence in my life is my father, who died in 2016. One of the more important values he taught me is to make good use of my time. You'll encounter this idea along with other elements of his wisdom throughout the book. I hope the book inspires you to take his advice to make good use of your time.



## CHAPTER 1

# FROM SIDE HUSTLE TO THE MAIN SHOW

I had already decided. I stood looking out the window at the city, saying farewell. You know the scene; you've seen it in movies: the skyscrapers and brownstones, the neatly laid out grid of streets and green spaces. Maybe I loved it so much because it was so different from where I grew up in a town in India, yet so like Hyderabad, where I lived as a teenager. Or maybe what I loved most was the people from dozens of countries—places like Japan, China, Russia, Germany, France, England, the Dominican Republic, Spain, South Africa, Nigeria, Brazil, Nepal, Indonesia, and, yes, India—mingling on the streets, like the complex aroma of my mother's biryani—garlic and chili, cardamom and cumin, cinnamon. There were smells from all around the world, too: sauerkraut from the Jewish deli nearly overwhelming the peppery scent of kimchi from the Korean barbecue restaurant next door; the delicate aroma of Chinese happy family blending with *herbes de Provence*, and, of course, Indian curry with

its pungent, slightly bitter smell of turmeric.

I had a successful career as a pharmaceutical scientist; that's what drew me to New York, to study at St. John's University. Success in a good job, living in a city I loved—so why was I moving to Texas? How did I become the founder and CEO of a successful US commercial real estate company?

I'll break it down into five steps.

## **Step 1: Be Bold and Flexible**

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My family loves to tell the story of how, when I was a toddler, I chose to attend a traditional Indian school. India has preprimary schools in addition to primary and secondary education. Most parents send their children to preprimary schools that are like private schools or charter schools. India has many languages, with Hindi being the national language. Most of the states have their own language (not a dialect), so growing up, I learned three languages. Telugu is my native language, my mother tongue. Hindi is my second language, and English is my third. Most students enroll in English school, which teaches all subjects in English. In the mornings, my parents would drop me off with my siblings at the English-medium school. However, once the school day started, I would run across the shared campus to Shishu Mandir, a traditional Indian school, with roots going back to the ancient Indian school system. Eventually, the principal of the English school called my father and told him the situation. Once I became more aware, I chose to stay at the traditional school. Fortunately, my parents were flexible and maybe saw a hidden wisdom in me and supported it. It probably helped that the traditional school was very good. The early lesson in flexibility manifested later in my life.



At the Shishu Mandir school, the day began with a general assembly in the center of the school. We started our day with a prayer and performing Surya Namaskar, or Sun Salutations. Part of the curriculum during that period was history, theology, and how India won its independence from Great Britain in 1947. The curriculum gave tremendous importance to science, mathematics, and social studies. Even as a kid, I realized those basics helped us many times over as we advanced into higher studies. At the end of the school day, we again assembled and chanted Shanti Mantra, a prayer for world peace.<sup>1</sup>

All the classes at this traditional school were taught in Telugu; the school also taught Hindi. In addition to a strong emphasis on STEM courses, one course in the curriculum imparted a lot of information on the powerful leaders who shaped India, much like the American history curriculum features George Washington, Thomas Jefferson, Abraham Lincoln, and others. Two of India's greatest leaders are Mahatma Gandhi, who is known and admired throughout the world, and Sardar (a title that means chief or headman) Vallabhbhai Patel. Patel's home state in India recently dedicated a six-hundred-foot-tall statue honoring him; it is the tallest statue in the world, even taller than the Statue of Liberty.<sup>2</sup> Patel is noted for leading the factions in India to form a unified nation and working with Gandhi to promote a nonviolent approach to independence. It is the same nonviolent

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1 Peace researcher, political scientist, and philosopher Samrat Schmiem Kumar explains that, "The peace mantra Om shanti- shanti- shanti is traditionally repeated three times. One may also interpret this as the meaning of peace in the body, mind, and soul (i.e. one's entire being), or as a wish for peace individually, collectively, and universally."

Samrat Schmiem Kumar, *Bhakti - The Yoga of Love: Trans-rational Approaches to Peace Studies*, (Berlin, Germany: Lit Verlag, 2010), 78.

2 "World's Tallest Statue, Twice the Size of Statue of Liberty, to Be Unveiled in India," *India Today*, last modified September 14, 2018, <https://www.indiatoday.in/education-today/gk-current-affairs/story/worlds-tallest-statue-india-sardar-vallabhbhai-patel-1336456-2018-09-10>.

approach that inspired Reverend Martin Luther King Jr. in his civil rights movement in America.

I was deeply inspired by Gandhi's teachings and life. Gandhi once said that English was the language of business and diplomacy throughout the world. If you wanted to become a global leader, you needed to learn English. In seventh grade, I decided that I wanted to be a global leader and transferred to an English school to learn the language. I wanted to have the capacity to do more. At the time—the early 1990s—my family lived in a town but had a plan to move to Hyderabad. It's the sixth largest city in India and the city where my dad went to medical school. Because my parents expected that I would attend medical school, they supported my decision to enroll in an English school even though they knew it would be challenging—like moving from Earth to Mars. When they said I could try, however, I said that try implies you can choose to fail. I didn't plan to fail.

My dad is one of my biggest role models. As a young child, he had a mild case of polio. Yet he fought all the odds to become the first medical doctor in his small town. He had to go through a lot of extra tests to ensure that his mild disability would not have an impact on patients. If he could fight those odds and succeed—he eventually became the civil surgeon and resident medical officer of one of Hyderabad's largest hospitals—then I could learn English and do well in school.

Switching to a school with English as the main language was a massive transition. Every teacher, however, was aware that I had done well at the traditional school and gave me additional support. All the students welcomed me. With extra care from teachers and support from fellow students, by tenth grade I received the highest ranking on district tests. When my family moved to Hyderabad, I was ready.

## Step 2: Be Interested in Everything and Observe Closely

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My mom and dad achieved some phenomenal things in their lives that left an impact on me. My mom had an option to enroll in medical school and become a doctor, just like my dad. She instead chose to raise me and my three siblings and became a full-time mother. In addition to being a great mom, she participated in social and philanthropic activities and won regional recognition for a club she is president of. My dad worked hard, and his medical practice enabled him to build a good income. With that income, he bought plots of land in and around Hyderabad. When he retired, his real estate portfolio was much larger than his savings, and some of the property values were larger by multiples than what he earned from his medical practice. These facts stayed in the back of my mind for many years.

When I was around fourteen, my father built a two-story home with downstairs portions for rental and the entire upstairs for us to live. He pointed out that I had time to kill over summer vacation and recommended that I watch the process. So my brother

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IN THE UNITED STATES.**

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and I watched the construction and supervised the contractors. It left a strong impression on me. I saw how tough the development process is and how easy it is to miss simple things. Moreover, I saw how to create value in a deal and how to generate residual income by renting out three-quarters of a house, which paid the expenses of the portion we lived in. Many years later, this idea became the building block of all my single-family investing in the United States.

## Step 3: Pivot When Necessary and Make Good Use of Your Time

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It is traditional in middle-class Indian culture to choose a professional career and even more traditional to follow in your father's footsteps. Naturally, I wanted to be a medical doctor like my father. In India you go to junior college for two years, and then you specialize. Medical school is very competitive—back then, 50,000 people might apply for 500 seats—and it is very expensive to think of enrolling in medical school if you are not among those 500. I missed the cutoff criterion on the entrance exam by 0.1.

Even though I lost out on enrolling in medical school that year by one-tenth of a point, I had an option to retake the exam the next year. Most students spend another year preparing to retake the exam; a vast number of students who missed out by such a small amount enroll in medical school the following year. Nothing is guaranteed, however, especially on a 1:100 ratio. In the meantime, I received an offer to join the undergraduate program in pharmacy at one of the most prestigious schools in India.

At this point, I pivoted. First, I decided to become a pharmaceutical scientist and got my bachelor's degree in pharmacy. Second, I set my goal as owning a pharmaceutical company; even at that time, I leaned more to the business side of work. Massive pharmaceutical companies like Pfizer and GlaxoSmithKline inspired me. Also, I thought, *Doctors prescribe the drugs, but scientists create the drugs*. Third, I enrolled in a school in India, the Manipal Academy of Higher Education, that is more like an international town. Twenty to 30 percent of the students were from the United States, Canada, the United Kingdom, Australia, Malaysia, or Singapore; many of the overseas students were the children of Indians who had emigrated to those countries. They

enrolled in medical, dental, pharmacy, physiotherapy, and other health sciences programs. Being exposed to people from all these different countries left me wanting to explore the world. But the students from the United States had the biggest impact. They left me with a desire to be in New York City.

When I looked at graduate schools, only one university in New York offered what I wanted—St. John’s University—and I applied only to that one school. I was lucky with my undergraduate and graduate choices; both times the one school I applied to admitted me. In hindsight, I would never recommend anyone apply to one school in the hope of getting in. Always apply to several schools, and enroll in your first choice. But give yourself options if you don’t get into that school.

When I graduated with my bachelor’s degree, it was too late to enter graduate school for fall. Although I received admission for the spring semester, if I waited until the next fall, I would have a full tuition waiver and teaching assistantship. St. John’s is a private school; going early and paying full tuition for a semester did not seem like a viable option. I had a gap, time on my hands, and no plans.

My father had some fundamental principles. One of them is that you cannot waste time. He believed that if I did not have a task to work on, I would become a completely different person. Without a task, I might spend all my time playing games or doing other things that are not worthwhile. As a result, he paid out of pocket for that first semester—about \$7,500 in the United States back then and over 300,000 rupees, India’s currency.

I still had a gap, but it was down to about five months. Again, my father said that I should not spend five months at home doing nothing. So I did a little pivot. I enrolled in an MBA program at a top-notch business school in Pune, a city not too far from Mumbai,

the financial hub of India. But I didn't let anyone know that I would be going to graduate school in New York in five months. Even so, I gave all I had for that one semester. While I was there, a group of students and I made a presentation to Tata, an Indian conglomerate that owns the Range Rover and Jaguar brands, as well as information technology consulting businesses. I was also the team leader for the Cultural Committee. Our task was to host the school's first big cultural show. My role as team leader involved uniting one hundred MBA students from different parts of India on short notice to create and perform a show in front of well-known local and national business leaders. Leading one hundred or so type A personalities in the most competitive Indian educational program was no small task. We got into constructive brainstorming, arguments, some fights, and at the end of it all, the show was a massive success.

We also went over budget.

When our professors congratulated our committee after the event, they asked me to speak in front of all the students. I gave credit for the success to all the team members but took the blame for going over budget. That I held myself accountable led the head of school to approve the budget in seconds. The business knowledge I gained had a much bigger impact on my future success than you would think a

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**WHETHER IT'S A SMALL OR A BIG JOB, ALWAYS MAKE YOUR IMPACT. THE REASON? WE ARE WORKING ON OURSELVES WHILE WE DO THE TASK AT HAND.**

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semester could have. It is almost impossible to tell at the time what impact something will have on you later in life.

In graduate school while doing my master's in industrial pharmacy at St. Johns, my dad's advice to make good use of my time still drove me. I went to school in the evening and worked for a cell phone store during the day in

Manhattan. I made so many cell phone sales and did so many activations that I set the sales record for that store. Whether it's a small or a big job, always make your impact. The reason? We are working on ourselves while we do the task at hand. One lesson I learned from all these experiences is that these small steps play a pivotal role once you determine what you want to do in life. Be the best at every task you take on.

After two summer semesters in addition to the regular school season, I graduated in one year and four months, a record time for anyone to graduate with a master's degree at St. John's. My first job as a pharmaceutical scientist was a contract job at Schering-Plough's New Jersey site. Schering-Plough was one of the top ten pharmaceutical companies in the United States back then but has since merged with Merck. I had the privilege of playing a small role in developing their antihistamine drug Clarinex.

On September 11, 2001, I was commuting to the company's offices in Kenilworth, New Jersey, when I heard news reports about a fire in the city: a plane had hit one of the World Trade Center towers. Having grown up in India, with an inherent interest in geopolitics of the region and the world, I used to read about terrorist activities in the northern Indian state Jammu and Kashmir, mainly abetted by cross-border elements supported by neighboring countries. With that in mind, I immediately thought about terrorism. By the time I arrived at work, the World Trade Center buildings were down, and, from the terrace, I could see the massive plumes of smoke.

With so much web traffic in those dial-up internet days, most of the domestic mainstream news sites were down. I had to use news sites from India to learn what was happening since there were no televisions in our lab. We had a full workday without knowing what was happening across the Hudson River. In the midst of those horrific

events, one thing I learned was how resilient a country like America is. While the entire world was watching, we had our full workday.

Just twenty days prior to the 9/11 terrorist attacks, I had been at the Windows on the World's bar, the Greatest Bar on Earth, on the 107th floor of the World Trade Center, having drinks with friends from work to celebrate a new job I was taking. A week after the attacks, I made the rounds of my favorite places and restaurants in that area to say farewell to my favorite city. I was moving to Texas. It was a sad time to leave New York.

## **Step 4: Learn How to Sell Anything**

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I moved to San Antonio, Texas, to take a position with more responsibility, bigger projects, and better pay at a midsize pharmaceutical company. It was a better schedule as well, eight to five with the evenings free. And in San Antonio at that time, my commute was short: no subways, just a quick drive to my home. Like they say, everything is big in Texas, so I lived in an apartment complex on the top of a hill. I enjoyed the freedom of not having to share my place with roommates. I started exploring my hobbies. In spite of this, I was not happy. I wanted to do more in my life.

With evenings free in San Antonio, I made friends. I also wasted a lot of time. Then I started thinking, *You know what? I want to do something else. I'm wasting my time.* When you're doing nothing and out with friends, opportunities can suddenly appear. I was recruited to be a part of a network marketing company. This was my first "sales job" since working at a cell phone store in Manhattan. I sold Amway for a month. At network marketing companies, you act as an independent contractor running your small business and recruiting others to work



under you. If you get lucky and the person you hire is a hustler, you can benefit. Because the company leaves so much to luck, it is more like they are selling a dream than a genuine business model. Within a month, I realized it wasn't working for me and lost focus.

I looked into another network marketing company called USANA Health Sciences, which sells nutritional supplements, or “nutraceuticals.” Their science and supplements were good, and I believed that prevention is better than cure; I still do. A good lifestyle can prevent many of the diseases we have like heart disease, diabetes, and stroke. USANA's marketing pitch was health and financial freedom; you achieve health with a good lifestyle and good supplements and earn “financial freedom” by being their sales rep.

Although I wanted to be good enough to achieve economies of scale—I recruited about thirty people in about three months and was one of the top recruiters for a week in the entire United States for the company—I was not sold on the network marketing concept. The people at the top of my “upline” did not inspire me. They were selling a story, which is hard to replicate, and did not seem like the kind of role models who would help me achieve my goals. I decided to quickly get out.

One thing that came out of the experience, though, was the knowledge that if I can sell the products *and* a story and recruit others, then I can sell anything. Selling is a pivotal skill most entrepreneurs must have.

## Step 5: Always Ask What's Next and Do It with Hustle

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Simultaneous with getting out of network marketing, I was thinking, *What else?* Nothing else was not an option; I remembered my father's words: "Make good use of your time." I also remembered my father's real estate investing success. I remembered how much I enjoyed watching the house being built and how much I learned from the details. I started looking into real estate and then began connecting the dots.

Being in Texas when I explored real estate was an advantage. The cost of entry in a city like San Antonio was relatively low. At the time, the median home price was about \$150,000. In New York, the cost of entry was much higher. During my days living close to the St. John's campus, I observed that people's homes had a basement with a separate entrance, and the owners rented them to four students at a time. I paid top dollar to share a basement apartment with three other students. Housing prices and rents in New York were crazy. I may not have tried real estate if I had stayed in New York.

Like my experience working in a cell phone store while in school, real estate was not my main activity. I was a full-time scientist working from eight to five. I invested in real estate in the evenings, looking for homes, connecting with brokers, sellers, contractors, and buyers. And then I noticed it was costing me to go to work from eight to five. For example, if I bought a home, fixed it up, and put it on the market, I was not available to talk with people about it or show it during the day.

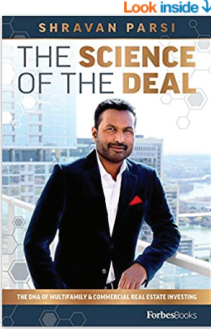
However, I did not quit my job right away. I had an objective: stay in my pharmaceutical job until the real estate income was twice the value of my salary. When I hit that objective—when real estate was no longer a side hustle—I decided it made sense to invest more

time in real estate than the scientific position.

When I arrived in San Antonio, Texas, it was the most exotic place I had ever been. The city is spread out; about 1.5 million people live on 465 square miles of land. In a way, New York City was more like my home in Hyderabad, India. In New York, a little over 8.5 million people are squeezed into a little over 300 square miles; Hyderabad has about 7 million people living in 251 square miles. San Antonio felt like a small town compared to both, and the amount of living space was luxurious. But in all three cities—four including Austin, my home for the last few years—success in commercial real estate takes hustle. In the remainder of the book, I will show you how.



This book encourages readers to step outside the comfort zones of their careers, and pick up a potentially lucrative side hustle that could upstage their expectations.



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LEARN A SYSTEMATIC APPROACH TO INVESTING IN COMMERCIAL REAL ESTATE AND MULTIFAMILY HOUSING.

From his roots in Hyderabad, India, to the heart of Texas, Shравan Parsi tells the story of his journey from pharmaceutical scientist to founder and CEO of successful real estate investment firm American Ventures. The secret to his investment success is like any science: a marriage between quantitative and qualitative facts, between abstract numbers and concrete action. Here Parsi outlines the technical information you need to learn how to invest in multifamily and commercial real estate, how to understand what

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