

Revere case study

Business



I would do the following 4 market research and planning before investing an apartment:

- C] Research on the whole real estate market, especially the market for small apartment buildings:
- O To identify whether the real estate market is going up, for example, by analysis the trend of the capital ratios, and then get the whole picture of the real estate market.
- CLC To make a segment research on the market of small apartment buildings.

After collecting the history data of the selling prices and rents, to forecast whether it is worthwhile to invest in the market of small apartment.

- C] To look for several investment targets and, for example, to decide an ideal city or even residential section to buy the building, taking the location, situation, broker, etc into consideration.
- O To make the income and expenses projections and get a draft of the investment setup:
- j] With the information collected in the first step, to set reasonable assumptions, including rents, vacancy, renovation cost, operating expenses, etc and calculate the future cash flow, potential profits and expected return.

- C] To use scenario analysis, if necessary, and change the assumptions under different market situations to get a whole picture of future possibilities.
- CLC Planning for own equity base and making an investigation for the mortgage market:
- O To make sure about my own savings and cash used for real estate investment as well as the budget in the following years.
- CLC To evaluate saving banks and find out the mortgage or loan which can be provided.

- C] To get legal advice on the future transaction and estimate possible risks.

The most important factors I could focus on are 0 The expected returns of the whole market: By analysis the expected return of the whole real estate market, can decide whether it's an ideal time to invest. 0 The expected return of potential investment building: By generating my potential investment return and comparing it with the return of the real estate as well as financial market, I can decide whether It's an Ideal building or project I should consider. 2.

Edward Alexander made 5 mistakes on basic assumptions and approaches: C] He Hough that popular building to live and rent is an ideal one to invest. Edward decided to purchase Beacon Hill as it was attracted many people to live in, but whether the building is worthy to invest should be decided by its future returns.

Popularity doesn't necessarily mean profit. C] He set up a fixed rent and vacancy rate for the building. When modeling his setup, Edward used specific figures for rent (which seemed too optimistic) and a relatively low rate of vacancy.

These may lead to overestimate of future cash flow. At the same time, he didn't take possible risk or other possibilities Into consideration. 0 He thought living in the building would create cash flow so as to serve the debt.

The bank considered the mortgage In light of the costs not the cash flows. He was too optimistic about the future value of the building. He regarded his Investment as an excellent market In an excellent area, so he predicted that the rent would increase over time. His overestimation could possibly lead too loss ROR log t NT cans now. U He Ignored t en value AT tile

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