

Final Project

The real estate asset of interest is a **single-family house** located in 2128 Vera Ave, Redwood City, California. It was built in 1958, finished remodeling in October 2020, and is currently priced at \$ 2,988,000 before charging any transaction fees.

The house has 4 bedrooms, 4.5 bathrooms, and 2,944 square feet of living space on a lot of 6,400 square feet. It is fully furnished with contemporary style such as wooden floor, chandelier, and modern kitchen (pictures shown in the supplementary section below). **One of the strengths of the property is the location.** It is conveniently located near the intersection of I-82 and I-84, and it is in walking distance to several parks and schools. Moreover, it is a short drive from the property to several tech companies such as Facebook and Google, short drive to the San Francisco International Airport and Stanford University. **Because of the renovation as well as the location, the property is very appealing in the housing market.** **Another strength is the competitive price of the property.** The neighborhood has a wide price range based on the size and the built year of the houses. This property stands out in the same size category by having a relatively lower price when the average price in the location is around \$3,000,000.

The **projected model** is based on a 20% down payment of \$597,600 with a 3.584% 30-year fixed loan. Assuming an annual vacancy rate of 8%, the vacancy cost for the first year is \$12,954. The investor will, hypothetically speaking, hold for 10 years before selling at \$3,570,937, assuming an annual growth rate of 2%. The potential tenants are workers in the management class (project managers, research and development managers, professors, etc.) of a nearby tech company who has an annual wage range of 10K – 30K and are willing to spend 15% or more of their monthly salary on renting a house instead of purchasing one or renting an apartment. Ideally, each tenant will stay for at least 2 years.

There are some additional costs associated with this property that might make this investment seem unattractive. For instance, the estimate property tax will be \$20,020 per year, annual cost of home insurance will be \$12,550, making the monthly cost in addition to paying back the mortgage to \$13,560. To sum up, all these cost average out to a \$11.07 per square feet per year. However, the average rent in the area is about \$4,000 per month, meaning the investor has to either increase monthly rent or pay the price difference, which is \$9,560, in order to keep the cash flow balance. **The weakness of the property is the almost \$10K monthly cost**, which is quite high given the uncertainty in the market and the job force during the

pandemic, and if there is a longer period of vacancy, it might bear a larger financial burden on the investor's shoulder.

In order for the property to be profitable given the assumptions discussed above, there are several proposals. **One way is to increase monthly rent, or increase the potential revenue to \$55 per square foot per year, and after five years, investors will see a positive return.** However, a higher rent may also drive away potential long-term renters, increasing the risk of vacancy. Also, Redwood City may also have rent control laws imposed that limit how much rent the investors can charge. **Another way is to hold on to the property for longer than 10-year period.** This may sound riskier because the value of the property might fluctuate during a longer holding period, but the monthly cost will even out without imposing a higher than average monthly rent.

Given the low interest rate, charming renovation, and ideal neighborhood, it is highly recommended to invest in the property as a primary residential place for investors who are living in the house for more than 10 years.

Supplementary Section





Citation

https://www.zillow.com/homedetails/2128-Vera-Ave-Redwood-City-CA-94061/15574949_zpid/