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 bourdon 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 feet 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.

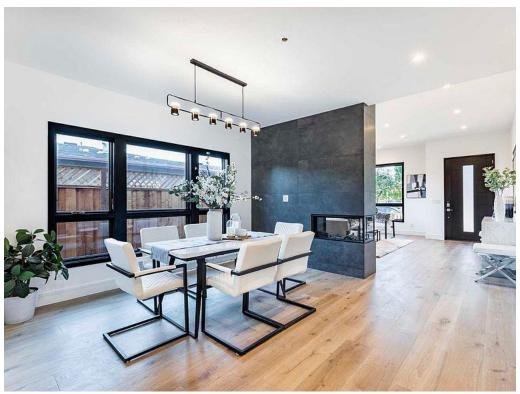
Given the low interest rate, charming renovation, and ideal neighborhood, it is highly recommended to invest in the property as a primary residential place for investors who are living in the house for more than 10 years.

## **Supplementary Section**









## Citation

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