

PROPERTY INVESTMENT

IDENTIFYING THE MOST INVESTIBLE ZIP CODES



- Isobel Daley from Flatiron School
- Over the course of the next 5 minutes, I'll be talking about a project we undertook to identify the most investible zip codes in the US

BACKGROUND

- US-based start-up
- Focused on acquisition of residential properties
- Recently raised \$100 million



- We were assigned this project by Investate, a US-based property start-up focused on acquiring real estate in areas with high growth potential
- Following a recent funding round, they have raised around \$100 million to invest in building their property portfolio
- - We have been asked to identify 5 zip codes in which Investate should invest

BACKGROUND

- Three-step strategy:
 - Year 1:** Purchase well-maintained properties with high-growth potential
 - Year 2-4:** Let properties
 - Year 5:** Sell properties to realise capital gains



Investate employ a three-step strategy

OBJECTIVE

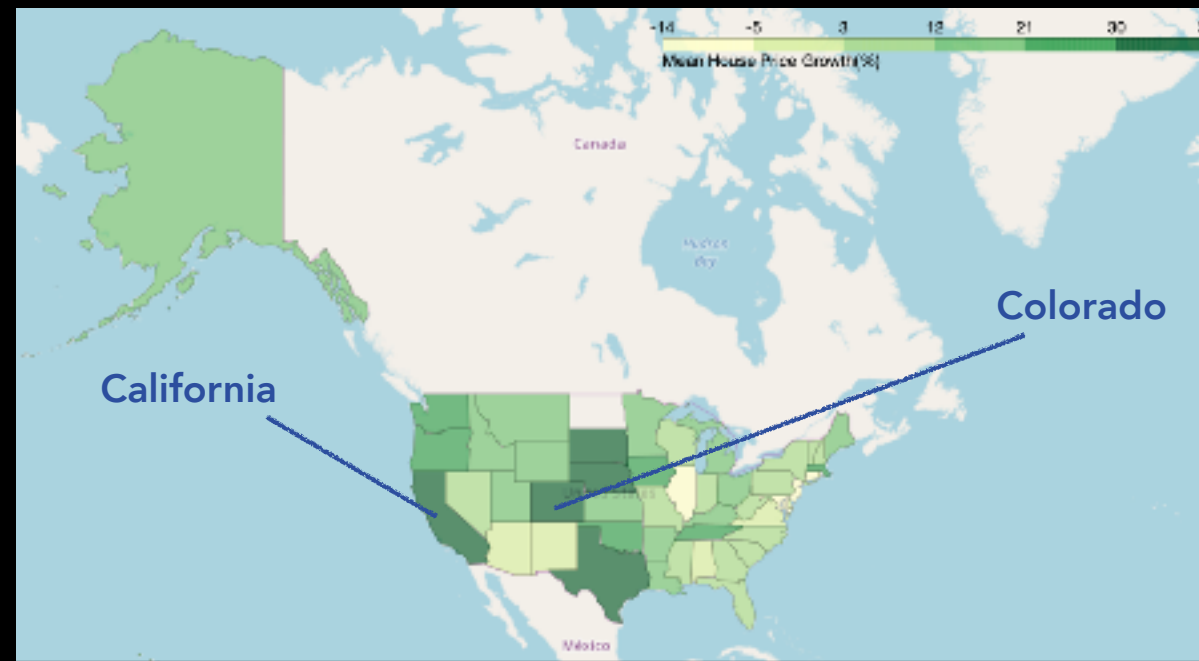
- Identify 5 zip codes that meet the following criteria:
 - Forecast growth in median sales price of at **least 35%** across a **5 year period**
 - Be situated in **2 geographically distinct areas**

Investate are looking to take a balanced approach to risk and return. In practice, this means that each of the 5 zipcodes recommended must meet the following criteria:

- Offer growth of at least 35% in median sales price across the 5 year period

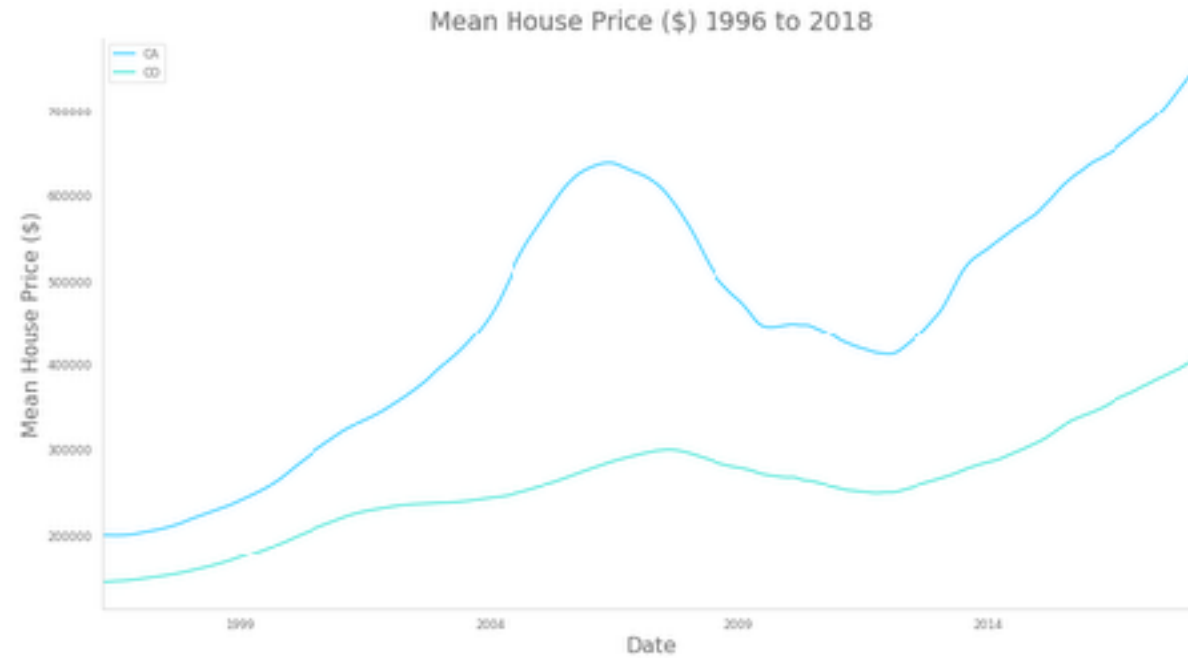
- Be situated in at least 2 geographically distinct areas. This will help to balance portfolio diversity with the logistical challenge associated with managing properties in different areas

2008-2018: HOUSE PRICE GROWTH BY STATE



- Colorado and California are the states with the most rapid growth in house prices 2008 to 2018
- These states were therefore selected as high investment potential

HOUSE PRICE TRENDS CALIFORNIA & COLORADO



- House prices in California are typically higher than Colorado.
- Colorado has exhibited fairly consistent growth across the period.
- Growth in California has been more volatile, with a notable downswing around 2006/7. This is around the time of the bursting property bubble. However, from 2011/12 there has been rapid recovery, and at this time, house prices are higher than ever. This is likely buoyed by the growth of Silicon Valley, increasing demand for property.

IDENTIFYING MOST INVESTIBLE ZIP CODES

- Selected two counties with highest 2008-2018 growth rate:
 - Adams, Colorado
 - Santa Clara, California
- Created models to forecast growth for each zip code until 2025
- Selected **5 zip codes** that exhibited:
 - High growth potential (**High Return**)
 - Great model performance (**Low Risk**)

To identify the most investible zip codes:

- Fastest growing counties were selected
- Created forecasts for each zip code within the county
- Balanced return (rapid growth) against model performance (i.e. accuracy of predicted house prices over a given period)

RECOMMENDATIONS

1. Invest in two geographically distinct areas: **California** & **Colorado**

2. Create a **diverse portfolio** by investing in property at **multiple price points** within these 5 zip codes

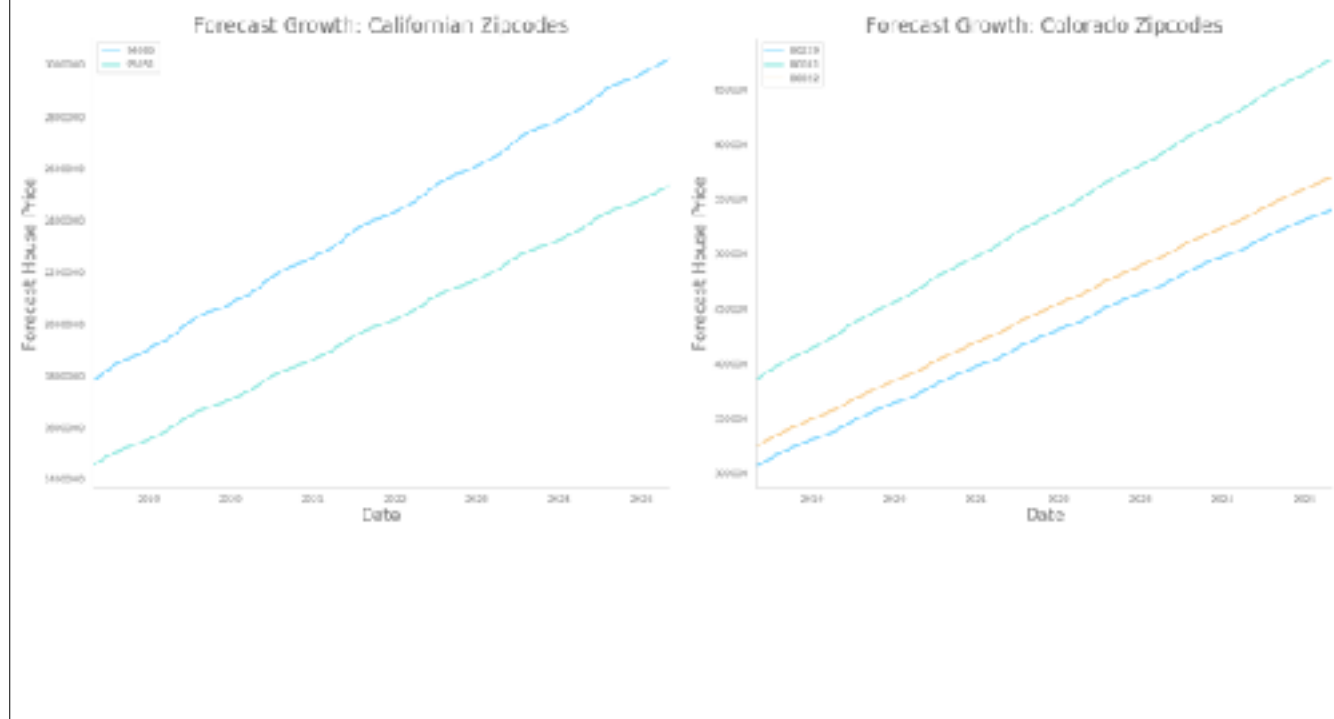
- **94086 (California)**: \$3 million
- **95051 (California)**: \$2.5 million
- **80229 (Colorado)**: \$0.5 million
- **80031 (Colorado)**: \$0.6 million
- **80022 (Colorado)**: \$0.6 million

3. **Let properties** to receive **ongoing income** over term of investment:

- Santa Clara: \$3.7K per month
- Adams: \$2.0K per month

5. **Sell properties** around **2025** with expected return of 40-45%.

SANTA CLARA, CALIFORNIA



This method leads us to recommend the 5 zip codes shown here

FURTHER WORK REQUIRED

- Investigate type of property in which to invest (e.g. number of bedrooms, size etc.)
- Confirm performance of models against real data

“Thank you for listening”