

# REAL ESTATE INVESTMENT ANALYSIS and STRATEGY

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# Three Basic Ways to Make Money

- Using personal ability: Exemplified by Mr. Spielberg and Mr. Woods in making close to \$100,000,000 per year. But it takes several hundred years for them to amass toward the later two.
- Utilizing manpower (through corporation): Exemplified by Mr. Gates in amassing more than \$50,000,000,000 net worth.
- Utilizing money (through investment): Exemplified by Mr. Buffett in amassing more than \$50,000,000,000 net worth - the importance of investment.

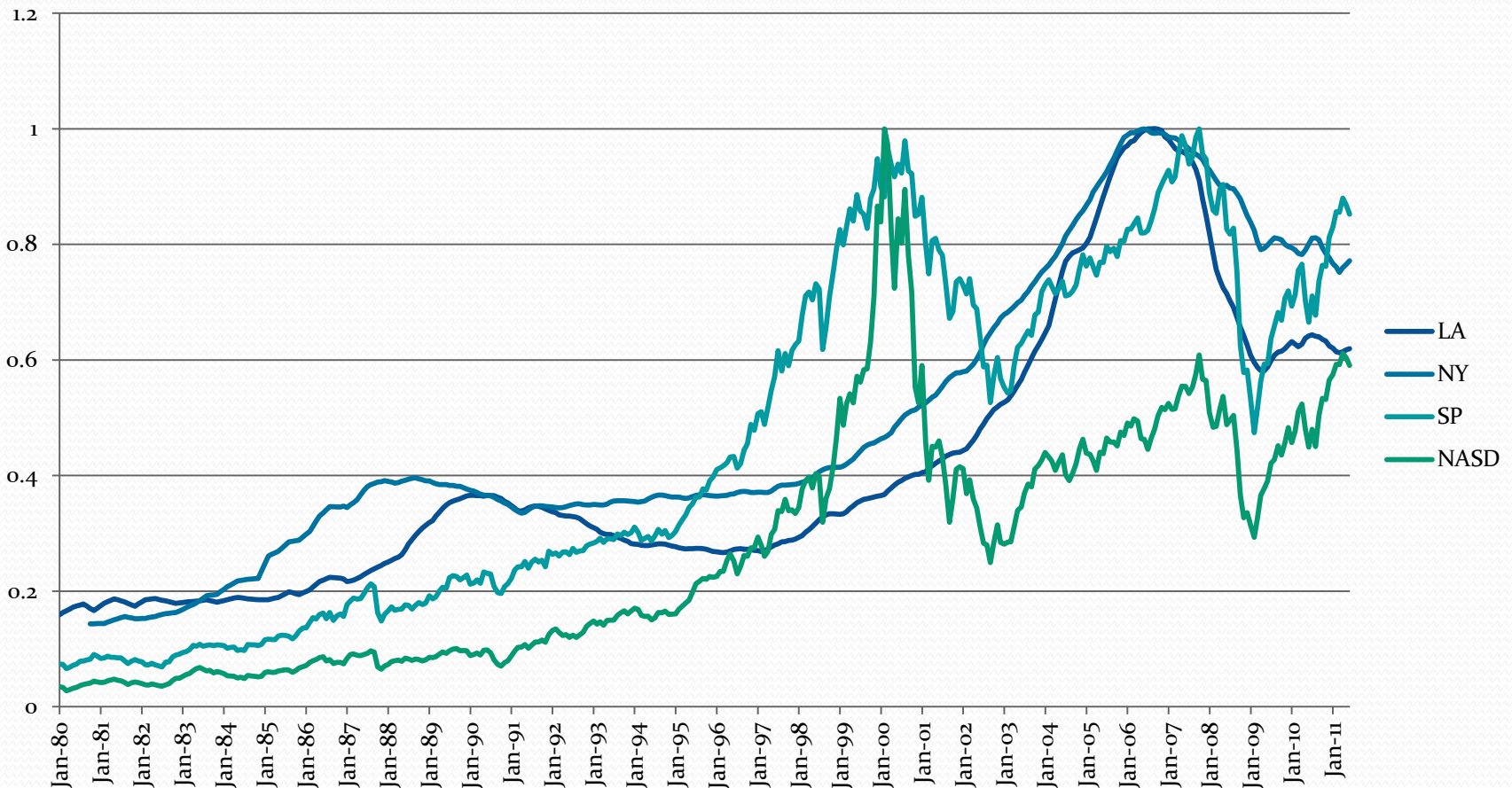
# Power of Investment

- The legendary Mr. Warren Buffett amassed his enormous wealth through the operation of Berkshire Hathaway Inc., a company he acquired in 1965 at the stock price of \$18 per share. Through the years, the stock price has ballooned to \$108,449 per share as of September 26, 2011, **increased more than 6,000 times at the rate of 20.83% per year.**
- The author presented in this article a real estate investment strategy could easily earned long-term rate of return more than 20% per year with minimum risk on paper, and even much higher in practice.

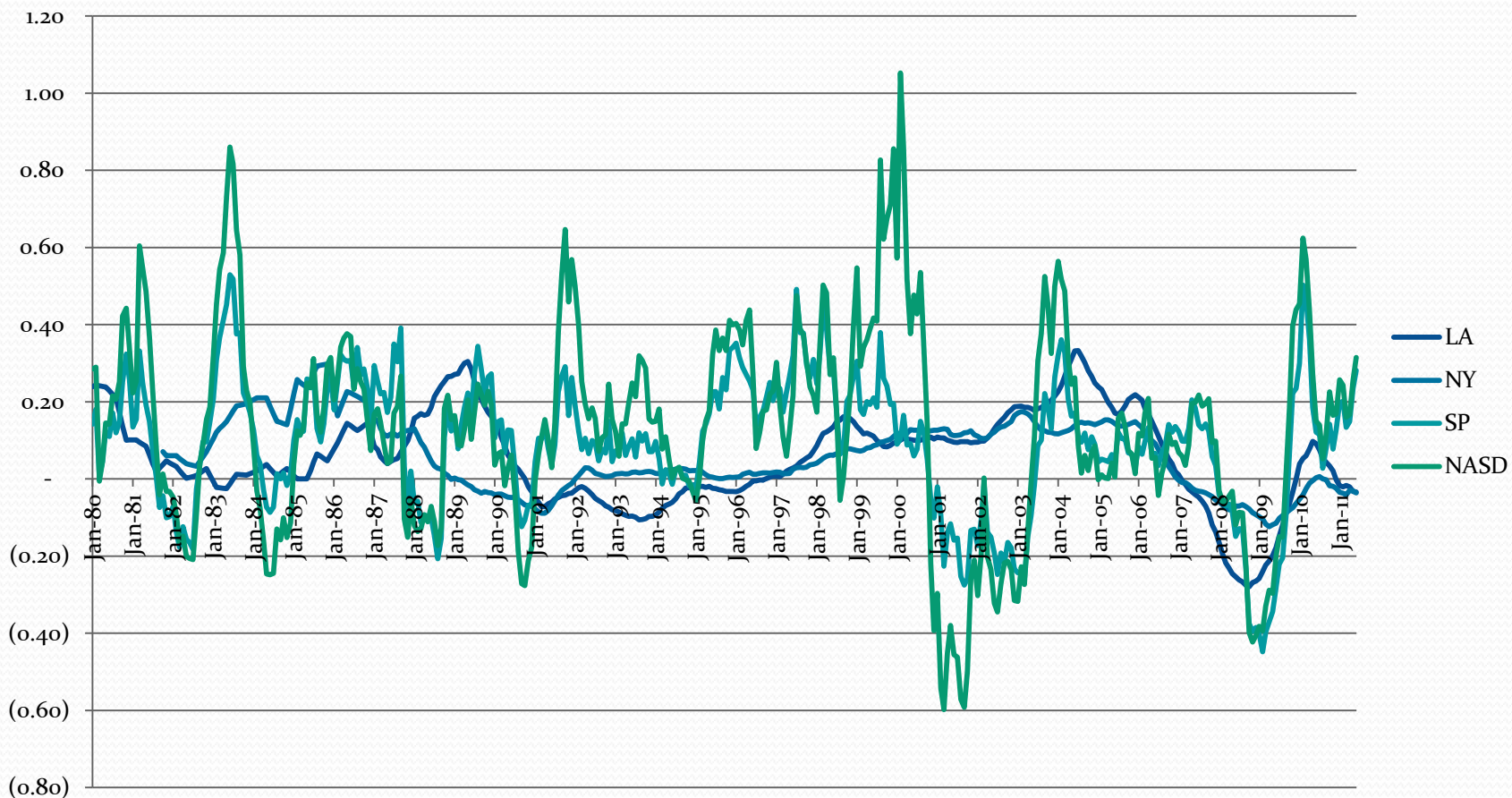
# Stock vs. Real Estate Property

- **The stock** is classified as paper asset, which **represents a minute portion of a dynamic ever-changing company**. Its share price is a reflection of the expected future performance or earning power of the company, which is dependent upon its management, usually uncontrollable by the investor and unpredictable in general.
- On the other hand, **the real estate property** is a form of real asset. What you see is what you get. **It is a solid and fixed structure rarely change**, but subject to physical and functional deterioration only. Its earning power is fully governed by the investor but almost totally decided by the local market condition and market trend, which is highly predictable.

# Price of Single Family Homes for Los Angeles and New York vs. S & P 500 and NASDAQ Composite



# Annual “Rate of Change” of Single Family Homes vs. Stocks Indices



# A Picture Is Worth A Thousand Words

- A major distinction of the stocks and the stock market is the unpredictability due to their cycles are relatively short and highly irregular, and the price movements at the crest and at the trough appear to be a parabolic curve or a tangent curve while the magnitude of its derivative (rate of change) swing widely and abruptly.
- On the other hand, the distinctive predictability exhibited by the real estate properties (REP) (with price movements resembling highly skewed sine curves and their derivatives also resembling cosine curves, the crest and the trough of the price movements can be pinpointed accurately, even though delay by the computational methodology, while their derivatives piercing across from positive to negative and vice versa, and long and regular cycle spans) allowed a relative simple investment strategy to be derived, which would yield excellent rate of return on investment with practically no risk at all.

# Basic Real Estate Investment Strategy

- Within any metropolitan area and its vicinity, the acquisition point of single family homes (SFH) is triggered when the annual rate of change on the local prices exceeds 5% while on its uptrend.
- The liquidation point of SFH is triggered when the rate of change on the local prices decreases below +8% while on its downtrend.
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- Between 1983 and 1989, the SFH price appreciated 99%, again boosted 275% between 1996 and 2006 in Los Angeles area. Also between 1981 and 1988, the SFH price appreciated 179%, boosted 199% between 1991 and 2006 in New York area. The basic investment strategy captured the premium (rate of increase above 5%) 69%, 215%, 106% and 142% respectively within each time spans and areas.

# Case Study for Single Family Homes

- Based on the basic strategy, net compounded annual rate of profit of 20% between 1986 and 1990, and 25% between 1998 and 2007 in the Los Angeles area; 22% between 1983 and 1988, and 21% between 1998 and 2006 in the New York area ; and 20% between 1993 and 1997 in the Salt Lake City area could be achieved on the SFH as presented in the following hypothetical cases.
- An advanced strategy could yield net compounded annual rate of profit of 27% between 1997 and 2006 in the Los Angeles area.
- Real-life cases completed by the author realized net compounded annual rate of profit of 29% between 1987 and 1991 in Torrance, and 50% between 1988 and 1990 in Palos Verdes Estates on the SFH.

# Case Study for High Yield Properties

- Applying the same strategy, net compounded annual rate of profit of 24% between 1986 and 1990, and 26% between 1998 and 2007 in the Los Angeles area could be achieved on the High Yield Properties (HYP) as presented in the hypothetical cases.
- Real-life cases completed by the author realized net compounded annual rate of profit of 28% between 1982 and 1986 in Torrance, and 86% between 1987 and 1989 in Manhattan Beach on the HYP.

# Investment is a science, not an art

- Artists rely on their talent and inspiration.
- Investors, like scientists, should rely on their knowledge. The success of the legendary Mr. Buffett was primarily based on his supreme knowledge and understanding of how the modern business should be operated and expanded, and whether his investment objects adapt to that mold.
- This article is the most important knowledge the author learned in his forty years' practice and study in the real estate market. In his earlier years, he thought he could always buy low and sell high due to his keen knowledge in real estate. Not until in the nineties, he realized no one can fight the market. Consequently, he devised this investment strategy to take full advantage of these highly predicable real estate market movements. Hopefully, it can offer real estate investors some help.