Demystifying Real Estate Analysis

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(A) In simple terms, **Analysis** (the number-crunching part of it) **= Data + Formula** : is to see what the picture (past, present or future) would have been / should be / will be like under various "what if" scenarios and assumptions. As there are inherent flaws in all data, formulae and assumptions, the results should only be viewed as **"projective"** (its proper use) rather than "predictive" (its improper use). The value of analysis is that it forces one to look at the (hard) numbers via a methodological approach, to recognize hidden pitfalls / risks, and to construct "fall-back" strategies where possible to minimize losses should a case scenario not occur. From experience, many might have avoided some loss-making projects had they done their analytical homework properly in the first place.

(B) While analysis as described is vital to any (real estate) business operation, **it should NOT be the only part in decision-making**. Given sufficient experience and in-depth knowledge, Intuition and Common (Business) Sense are also vital elements. One way to use all these elements fruitfully (analysis, intuition and common sense) is to cross-refer or cross-check the indications / resolutions arrived by each. If they confer, all the better. If they do not, then one should consider finding the reasons for the differences. Also, watch out for (your) undue bias in each element influencing one another as this would wipe out part of the benefit of using these approaches concurrently.

(C) Analysis can be done on the **project, portfolio or market/macro level** and can range from simple to being quite complicated though the latter would generally be more time-consuming and expensive as more resources are required. Moreover, the purpose and the prospective audience have a bearing on the way and depth the analysis will be presented.

(D) **Tip One : "Price" and "Value"** while being inter-related should be well differentiated : i.e. the (market) price at any one point in time is **usually not equal** to the value (can be higher or lower) which is turn is dependent on the investment timeframe involved. Generally, the shorter the timeframe, the higher the chance the price would be close or even equal to the value unless one is on a so-called "reflexive" point. The value part will give one a sense of how profitable (or not) and risky (or not) an opportunity is when compared to the price part.

(E) **Tip Two : Take out the financing** i.e. assume that loans, mortgages, or convertible bonds etc are all unavailable in the analysis so that the "true" strength (or weakness) of a project or investment opportunity can be seen. You will be surprised how many *"lemons" can be packaged to look great via inserting financing figures* though other items and figures can also be used to boost up the picture.