

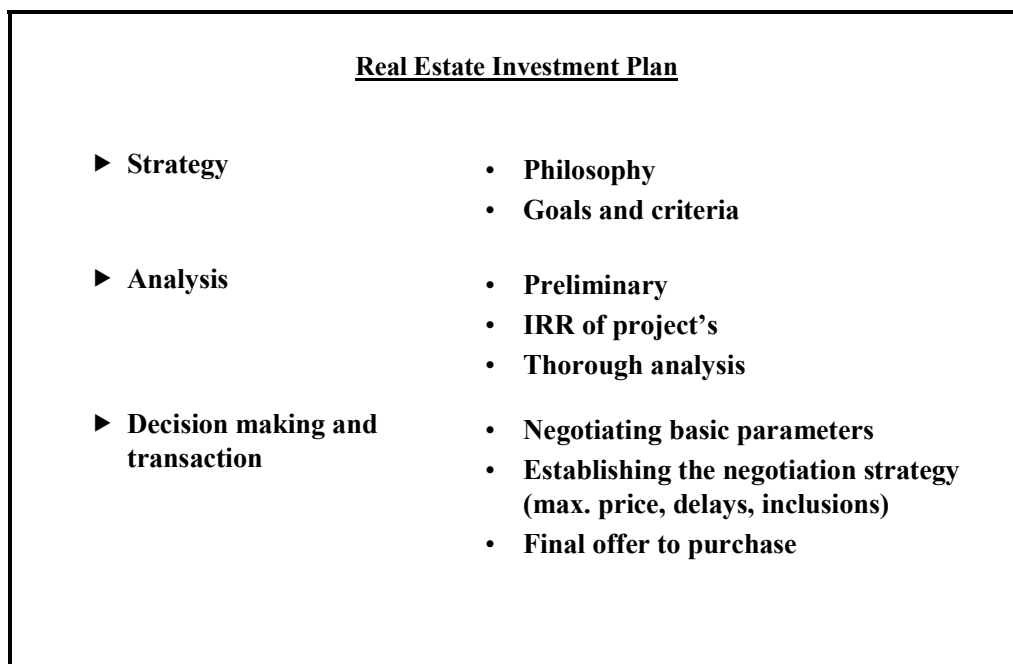
1.2.6 REAL ESTATE INVESTMENT PLAN

When deciding to invest in real estate a serious investment analysis plan should be established.

This plan should include the following three steps⁵:

- I) Strategy;
- II) Analysis;
- III) Decision making and transaction;

Figure 5: Real Estate Investment Plan



⁵ From class notes: “ Real Estate Financing ”, 1997-98, course number 5-206-76, HEC

These criteria help the investor target the opportunities that meet his requirements and this information can be given to a consultant who can better answer the investor's needs and save him time.

1.2.6.2 THE ANALYSIS

The analysis of an investment project is fundamental to measure the risk-return relationship. It can be divided in two parts: the preliminary analysis and the detailed analysis.

The preliminary analysis consists of gathering enough information to identify the investment projects corresponding to the established criteria. Once this first step is completed, we proceed with a detailed analysis for the pre-selected projects. This next step consists of validating information received from the vendor or the agent (income, expenses, consistency, etc.). This step is very important since it helps to reduce unexpected surprises. A list of important points to verify is presented on the following pages. A thorough analysis also consists of proceeding with the financial analysis of each project and includes calculations for positive, realistic and pessimistic scenarios. This sensitivity analysis helps to better understand the level of risk for each project. Some projects will offer high returns while being more volatile, therefore riskier. It is important to remember that risk is proportionate to the stability of the income stream.

A real estate investment usually represents a significant disbursement, no matter the type of property. A serious investor should complete certain analyses and verifications before deciding whether to buy a property and at what price. On the following page you will find an acquisition plan outlining most of the necessary elements for effective decision-making.

The essentials of a detailed analysis

- I) Market analysis
- II) Building analysis
- III) Establishment of indirect fees
- IV) Making the decision and the transaction