Fairly high risk potential derives in Real Estate project development from plenty of uncertainties prior and during the process of making the decision of realization, which may possibly lead to hazardous situations or to opportunities for the developer.

The decision of realization depends mainly on the calculated return on investment. However, this calculation shows some vagueness in choosing the correct input values e.g. expected construction costs or expected monthly rent. These uncertainties derive to a major degree from a lack of knowledge about expenses and revenues due to missing hard facts before the actual process of project delivery starts. Especially the uniqueness of each Real Estate project within its singular environment and the long duration of the production processes besides the long operation periods allowing the markets to change significantly increase the vagueness of the information on which decisions foot furthermore.

This dissertation focuses on the investigation of reasons and methods of control of these uncertainties during the process of decision making and aims at an improved model to obtain a well-founded basis for such far reaching decisions. As statistical methods don’t work out on this sector the main approach is to determine the obtainable level of knowledge and the perceptibility of each single risk issue as well as for the whole project risk as a specific value. Based on these furthermore the concept of controllability of risks is expected to lead to a very different view of risk management, which may be a more reliable basis of the decision of realisation. This proposed extended risk evaluation process is applicable for both, internal and external risk analysis e.g. for funding institutes. As soon as the knowledge and perceptibility levels are stated, each party decides on its own whether the consequent controllability turns out to be acceptable or requests for further information.

The introduction of knowledge based risk management will therefore increase the transparency of the decision making process which leads to better decisions regarding the realization.

References


Knight, Frank H.: Risk, Uncertainty and Profit. Orlando, USA 1921.