Evaluating and Managing Risk in Real Estate Deals

Elements of Risk:

1. What are the costs of something going wrong?
2. What is the probability it will go wrong?
3. How much control do you have over the likelihood of the risk?

To Identify and Evaluate the Risks:

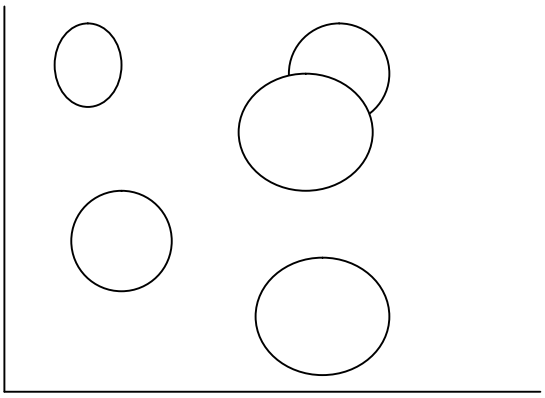
Step 1: List Risks

Step 2: Beside each risk put the % probability of each risk happening – this is your best guess

Step 3: Gather up the top 10 highest probability items and draw a circle beside them that represents the likelihood of that risk happening. The higher the probability the bigger the circle.

Step 4: Plot each risk on a chart

With high cost, highly uncontrollable risks going in the top right hand spot. Low cost and very controllable risks in the bottom left.



You don't want to see deals with a high probability of happening sitting in the top right hand corner. If you have 2 or more items with high risk and uncontrollable items in the deals you are VERY likely to see at least one of them happen.

Step 5: Find ways to manage and mitigate the risk. Try to decrease the cost and decrease the likelihood that it will occur. The objective is to:

- Make the circles smaller
- Move them down so they will cost you less
- Move them to the left so you have more ability to manage and control the risk.

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