Risk Tolerance in Real Estate - Do’s and Don’ts, When and When not

Risk = Reward, Can you handle it?


Don't let poor risk choices domino your business plans

PALM BEACH GARDENS, FLORIDA, USA, July 21, 2022 /EINPresswire.com/ -- Risk is prevalent in nearly everything we do. Risk for the most part comes and goes but for a few things, real estate being one of them, risk can be like a prison sentence with long range impacts. Of course, we all know the old saying “no risk, no reward.” In real estate that is certainly the case, but there are ways to minimize and quantify risk.

Look at Student Loans, most would argue it was maybe not worth the risk. Many young people would like to have that as a do over. But it is emblematic and similar to how real estate works as well. Many real estate deals look to good to be true. Beware they usually are. It is often said that getting into a risky real estate deal can take just a few months, but getting out clean can sometimes take decades. Always read the fine print carefully.

> Risk versus reward has a whole new meaning in Real Estate Development- the stakes are much high on both sides of the equation.”
>
> *Stephen Gravett*

Beware of loan officers bearing easy terms. Bad real estate borrowing is clearly a major source of getting behind the real estate 8 ball, especially when these loans require personal signatures. Fortunately for the industry, lender underwriting tightened up dramatically after the 2006-2009 recession. A recession primarily caused by loose and easy lending. Fortunately today ill advised real estate deals are rarely underwritten by lenders. In this case government did it's job after the recession. The entire spectrum of risk is enlightened when borrowers are required to pledge their assets as collateral and agree to repay the loan in full. Nonetheless bad deals can still occur, sometimes through no fault of the borrower. If you do default the likelihood of failure is great, but worse are the judgements, foreclosures or loss of personal wealth that you saved half a lifetime to accumulate that comes later. It also means when the right deal comes along, you may be sitting on the sidelines.

How can we minimize these risks? Risk is always prevalent in real estate development. But good decision making and experience can help reduce risk. Step 1- Do not over reach for over-priced land. Also, make sure you author your contracts subject to all approvals being granted by government officials or there will be no closing and all deposit monies are fully and immediately refundable. If you plat the property the closing should occur after all appeal periods have legally expired. Generally plats are no longer appeal-able after the 31st day. Knowledgeable Sellers normally understand the importance of these requirements and are willing to accept these terms. If they do not agree to these terms the burden of risk is on you. At that point it is best to walk away.

Always be sure to have a refundable period of time in the beginning of the project where you can examine soils, check for any contamination, visit your town officials to get a feel for their willingness to vote for your proposed project and take time to study existing and future competition (a marketing report). Generally this early due diligence time frame is about 60-days and allows for a complete refund of the deposit monies if it proves unsatisfactory for any reason. These are enjoyable times, especially meeting with town officials, where you can see how well you have conceived the product while third parties render their valuable opinions.

Other important duties during this short due diligence time frame are the researching of your product, exam appraisals of similar properties in the area, study demographics and shop the competition constantly. Your eventual lender will want all of this research as part of their consideration to make the loan. All of this homework helps you evaluate the viability of your vision- it contains and limits your risk. At some point just before the closing while you await government approvals its time to begin getting together the sales and marketing materials so you can hit the ground running soon after closing. Experience plays a big role but so does hard work and common sense. At this point a feeling of relief should occur as the risk is no longer in the success of your creation, but is now in the your hands as you execute the plan.

One thing about this business – even when you do things by the letter, events can change outcomes. Things like a recessions, bank crisis, partner illness and material shortages can foil a success from happening if you fail to plan for these contingencies. That is when the Captain must steer the ship through the narrow harbor in order to minimize damage. Risk control = success.

Stephen Gravett has been a real estate developer for over 45 years and was most recently CEO of Kennedy Homes for the past 11 years and is still CEO of Kennedy Development Partners (KDP). He is also full time Director of Operations for 5 Star Developers. He is a state licensed broker and since 1980 a State licensed General Contractor Unlimited. Before becoming a real estate developer, he flew B-52's in the US Air Force during the Vietnam War.

Stephen Gravett
Stephengravett.com

+1 561-789-3194
email us here
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Facebook
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