Assessment and Control of Investment Risk in Real Estate Projects

Guangsheng Wang[1,2]
[1] Beijing Wanda Investment Co., Ltd., Beijing 100101, China
[2] University of San Carlos, Cebu, Philippines
DOI: 10.32629/memf.v3i6.1074

Abstract: The fast rise of China's real estate business has efficiently propelled the country's economy, and it is also profoundly entwined with the daily lives of the Chinese populace. There are more investment risks associated with real estate projects due to the size of the investment funds, the length of time required to accomplish the task, the effect of regulatory changes, the market climate, and other variables. If these risks are not appropriately managed, they will lower the investment's return. Real estate project investments should be more cautious and scientific, fully assess investment risks, and target the appropriate control measures to reduce the impact of risk factors and ensure the smooth implementation of investment activities. This is particularly crucial in light of the new normal, which involves increased uncertainty.
***Keywords*:** real estate, investment risk, assessment, control

Introduction

When investing in real estate, it is normal for various unanticipated events to occur, which may affect the outcome. The purpose of real estate investment risk analysis and control is to evaluate and evaluate the risk before the implementation of a real estate project investment, taking into account the specific characteristics of the project, quantifying the probability and consequences of the emergence of risk using scientific assessment methods, and taking targeted measures to control, to effectively crack the hidden crisis in the real estate investment process and create more value. Real estate investment risk analysis and management also incorporate the project's unique characteristics. This study examines, comments on, and assesses the most significant risk factors in real estate project investment and proposes control strategies for enhancing the consistent growth of real estate project investment.

1. The significance of real estate project investment risk assessment and control

Factors, occurrences, and losses are risk components. Risk factors are potential scenarios that could lead to accidents; risk events are the repercussions of multiple risk factors; and risk losses are the decrease in benefits from risk events, including direct and indirect losses. Risk assessment and control theories have become a complete framework for managing risks to minimize their impact. In real estate project investment, the project investment risk is identified, assessed, and control measures are implemented to use the lowest cost in exchange for reducing risk losses to ensure the project's success, which benefits investors, and to ensure the project achieves maximum benefits. [1]. National policy direction, market environment, and other developments have increased in recent years, raising real estate investment risk. It's essential to have a comprehensive set of risk assessment and control systems to anticipate, avoid, and control risk, detect danger as early and precisely as possible, and minimize investment impact. Professional investment risk assessment and management have practical relevance as well.

(1) It helps optimize project investment decisions, reduce mistakes, minimize large financial impacts on real estate developers owing to decision errors and compensating various funds, reduce enterprise cash flow fluctuations, and ensure production and operation stability.

(2) It improves real estate enterprises' risk detection and risk management practices. Real estate development is risky and fast-paced. Enhancing risk management helps developers discover risks, analyze dangers, and adapt to the changing commercial real estate development market to assure project success.

(3) It helps real estate businesses construct a scientific project risk management mechanism, assuring accurate project management, boosting developers' risk management level, preventing and controlling risk loss, and ensuring efficient project execution.

(4) The government should use the investment risk mechanism to apply macro-management, restrict development territory, property type, and timing, avoid investment overheating, control the real estate market, and promote sustainable and healthy real estate sector growth.

2. The central investment risk identification and assessment of real estate projects

2.1 Frequent risk identification tactics

In the 1930s, research on the control of project risks was applied to real estate investing. After some time, researchers in the United States developed a model for evaluating risk based on the mean of distribution variance or standard deviation. Real estate development businesses employ it to prevent and control risk. When the current state of real estate development in China and the specific risk factors in China are combined, the most common methods for identifying real estate project investment risk are the expert survey method, the on-site observation method, the financial statement analysis method, and the flow chart analysis method, among others. Before executing an investment, one or more of the methods above can be used [2] to identify the investment's risk. All risk factors can be subjected to scientific review and detailed analysis of the project implementation process throughout the project's execution.

2.2 Common risk evaluation techniques

After a risk is identified, it is evaluated using scientific methods to establish a theoretical foundation for risk management. This helps with risk management theory. Each risk assessment method has its applicability and limitations that can be matched to the investment project to produce objective and scientific results. Standard risk assessment methods include break-even, probability, loss, and Monte Carlo [3].

2.3 An analysis of real estate investment risk factors

(1) Risky political changes. Real estate affects China's economy and people. State regulations promote real estate market growth—land supply, purchase, etc. Proposed policy changes require a scientific assessment to improve risk management.

(2) Financial danger Real estate investment risks rise when interest rates or loan terms change. Imagine capital flow is disrupted. Specific construction projects with high financial leverage and capital flow will fail in investment and incur huge losses. This will happen despite the risks. Before investing in real estate, preserve the source of money, minimize financial leverage, and mitigate financial risk. Financial risk is reduced.

(3) Material price risk. Construction material pricing changes affect a project's total cost. Building materials are a large part of project costs. Due to the long project cycle, market demand affects material cost. Price-volatile policies, such as rising material costs, would increase building costs, making construction projects more challenging. Before investing in real estate projects, bulk materials and price variations must be analyzed. To reduce the impact of material price changes on building costs, proactive measures must be taken.

(4) Project risk Multiple professional units, dispersed work surface, long cycle, high degree of professionalism, labor-intensive, such as participants in the management of chaos and disorder, the interconnected system is not sound, etc., will result in construction projects falling behind schedule, quality defects, safety accidents, etc., resulting in real estate project investment being out of control and unable to achieve the desired results. Real estate project implementation involves multiple professional units, a long cycle, a high level of professionalism, and labor- If the participants are not in place, the technical strength is insufficient to cause a delay in progress, which results in the property not being delivered on time, which results in a large number of late delivery defaults; and because the management is not in place, quality and safety accidents occur, resulting in economic losses. Because of insufficient technological strength, a catastrophic breakdown is unlikely—three investment risk management.

3.1 Improve risk control awareness, innovative risk control model

First, improve the understanding of risk control, fully aware of the harm and impact of risk on project investment. Second, actively introduce professional talents, adopt scientific methods and strategies, construct a perfect real estate project risk control mechanism, and let all employees actively participate in risk control while being fully aware. Real estate investment risk control involves two steps: First, enhance risk control awareness by understanding the impact of risk on project investment. In conclusion, the scientific balance between risk control and economic interests will increase risk; a one-sided plan of risk reduction will affect investment interests. Decision-makers should use scientific risk assessment methods to make scientific investment decisions to ensure the smooth implementation of real estate project investment and control risk within an acceptable range.

If risk management efficiency is to improve, the risk control approach must follow science, reason, and precision. First, pick specialists in professional roles, such as financial positions, by establishing senior and experienced financial staff for project investment management. These individuals may combine their personal experience with financial data analysis to more correctly identify investment dangers, which permits early control actions and decreases investment risk. Regarding implementation, it's best to start with specialists in roles like finance. Second, when combined with Internet technology, using the collection, analysis, and collation of various real estate project information, cloud computing, extensive data analysis, and the establishment of prediction models, early warning mechanisms for real estate project investment risk points can be more scientific and accurate, ensuring the correct investment direction and the smooth implementation of investment activities.

3.2 Scientific risk sharing and risk transfer

After analyzing real estate investment risks thoroughly, risk sharing and transfer may be done scientifically and equitably. This helps real estate firms reduce risk. Contracts, insurance, and guarantees are common means to transfer risk. [4]. Real estate corporations may subcontract if there's a high risk or insufficient construction capacity. This involves a contract and risk transfer. The agreement outlines each party's obligations and duties. This document is a project template. "Financial responsibility" is asking real estate businesses for cash to avoid a financing gap. The project is ongoing [5]. "Insurance" refers to real estate businesses ensuring building projects transfer risks to insurers. Real estate businesses often seek insurance to avert accidents or catastrophes during building. The insurance company handles the problem well. The insurance firm is an excellent alternative for real estate projects with long development periods and significant investments [6]. Insurance tackles risk. Real estate project investments should be evaluated methodically and accurately in terms of risk, first to enhance their risk resistance and second to share or transfer risks they cannot bear and have a higher probability of occurrence in exchange for giving up some benefits while paying close attention to the scientific nexus. To ensure the effective execution of real estate investment activities, we must also consider the scientificity, legality, and practicability of risk sharing and transfer.

Conclusion

There are numerous complicated hazards to consider when investing in real estate. To ensure seamless real estate investment operations, increase risk control knowledge. Using novel risk identification and assessment tools is crucial for effectively identifying real estate investment hazards. Finally, risk sharing or transfer reduces impact and improves risk prevention.

References

[1] Huang Haiying; Exploration of real estate project investment risk control[J].*Accountant*,2019:74-75.

[2] Sun Jiao.A brief discussion on real estate project investment management and strategies[J].*China collective economy*,2019:30-31.

[3] Shi Zhong; Research on real estate project investment risk factors and its management countermeasures[J].*Value Engineering*,2019:48-50.

[4] Zhou Yancheng.Risk identification and prevention of real estate investment projects in the context of the new standard [J].*Wealth Today: China Intellectual Property*,2019:67-68.

[5] Yang Lihui.How to reduce the risk of real estate investment[J].*Investment and entrepreneurship*,2020:29-30.