

Identify, Mitigate & Manage Risk

There is risk involved in all investment activity - including real estate. While it is often said that there is a relationship between risk and reward, wise investors never expose themselves to unnecessary risk. The key to successful (and boring) investment is to clearly identify all known risks, take the required actions to eliminate or reduce them, and have a plan for handling them should they present themselves.

This table shows how risk is identified, mitigated, and managed.

Identification	Mitigation	Management
Misrepresentation of Property Offered for Sale	Due diligence escape clauses written into offers	Offer cancelled or renegotiated
Misjudgement of Purchase Price	Third party appraisals performed on all purchases requiring bank financing	In the unlikely event of acquiring a property over-value, cash-flow enables hold until market catch-up
Building Defects	Building inspector engaged on purchases; major exterior and structural deficiencies (condos) are responsibility of condo corp; in Alberta, Reserve Fund Study performed by qualified engineering firm is required for all condo corps	Defects not identified or rectified will be corrected and financed through staying fund, cash call, or traditional financing
Mismanaged condo/strata	Formal review of condo docs commissioned for unit purchases in untested corps	As owners, we can attend condo association meetings to encourage proper action
Clouded Title	Title is pulled prior to purchase; title insurance is purchased for all units	Refer to insurer
Environmental Issues	Not common in residential properties	See insurer
Legal	We will never deal in 'grey areas of the law; real estate contracts must be in writing, ours are verified by one of Canada's leading real estate lawyers	Proper documentation and legal representation
Mortgage or Financing Issues	Transactions requiring third party financing are negotiated or informed by one of Canada's leading mortgage brokers	Supply additional information or security as required

Vacancy	Analysis Includes budget based on prevailing vacancy rate or greater; staying fund established and maintained at 1-3 months rent; all properties will present as clean, safe, and affordable, with exceptional attention to detail; tenants will be treated as valued customers	Rent-up of units will not be entrusted solely to Property Management Companies; units are marketed in a variety of media; any cash shortfalls are shared 50/50
Delinquent Tenants	Extensive background checks may be performed on prospective tenants, including credit & criminal record; expectations will be clearly communicated upon signing of lease	Immediate action will be taken upon late or non-payment of rent utilizing, where necessary, the Residential Tenancy Dispute Resolution Service
Destructive Tenants	Security deposits of up to one month's rent are held on each lease; photographs included with Inspection Reports	Each unit is inspected semi-annually in an attempt to pre-empt problems; staying fund may be required to effect repairs
Liability / Loss	An specialized investment insurance review is performed for each unit; insurance is topped up as necessary	Refer to insurer
Declining Market	Extensive research is conducted, purchasing in fundamentally strong communities; only neutral or positive cash-flow investments will be considered; rents do not typically decrease when markets dip; investments anticipate a long-term hold (5-8 years)	Partners may agree to postpone sale until market improves
Unrealistic Expectations of Performance	All assumptions used in pro forma should be independently verified by all parties prior to acceptance	Acceptance of lower than expected returns
Interest Rate Increases	Budget for reasonable increases and/or increase principal payments in anticipation of higher rates	Ability to lock into fixed mortgage if desired
Inability to Pay Mortgage	Sufficient equity (down-payment) in properties provides buffer; investments are not entered without reasonable chance of positive cash-flow	Property can be sold; mortgages in Alberta are non-recourse

Non-payment of Taxes	Payments are automated wherever possible	Semi-annual reporting
Non Payment of Condo Fees	Payments are automated wherever possible	Semi-annual reporting
Personal Financial Crisis	Strength of parties to JVA	Remedies addressed In JVA
Death or Disability of a Partner		Addressed in JVA
CRA Audit	Intent of venture is clearly identified in JVA; bookkeeping system informed by one of Canada's leading real estate accountants	Proper documentation and representation
Default on Cash Call	Parties should have sufficient assets and/or Income prior to entering JVA; diligence may include credit reports	Remedies addressed In JVA
Non-performance of Operating Partner	Due diligence is required by all parties prior to entering JVA; remedies outlined in JVA	Minimum reporting is semi-annual; updates can be requested at any time
Misappropriation of Funds	Parties to JVA are encouraged to perform background checks, which may include character, credit, and criminal record reports; mortgage payments, etc. are automated where possible	Semi-annual reports; remedies in JVA
Breakdown in Partnership	Encourage open communication prior to entering JVA	Remedies addressed in JVA
Acts of God	Prayer	Submission
Unforeseen Events	Addressed above, or ???	Resourcefulness and collaboration