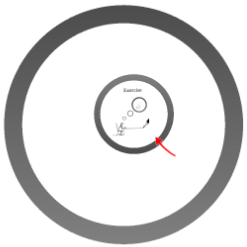

Wrap Up &
Next Steps.....

Questions?

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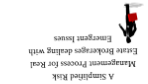


Break
15 Minutes

Risk Management in a Hot Market

BC Real Estate Association

September 22, 2021

Agenda

1. Introduction
2. The Current Market
3. What is Risk?
4. What is Risk Management?
5. Why should I care about Risk Management?
6. What is the simplified Risk Management Process?
7. Application to Common Risks in a Hot Market
8. Risk Identification Exercise

Take Away

1. Risk management is commonly thought of as a complex planning process that is implemented in a formal manner across an organization on an annual or other regular basis

2. Despite this traditional use of RM, the tools of risk management can be used in a quick and simplified manner when faced with emergent risk (eg. COVID, Hot market)

Objectives

1.To introduce a basic risk management strategy that can be applied to a real estate brokerages in times of emergent risk

2. To consider some common risk events in a hot market to reduce risk exposure

2.To engage in a risk identification exercise and share perspectives on risk in a hot market with fellow managing brokers

The Current Market

The Current Market

- Hot markets bring increased stress and workload for managing brokers
- This stress and workload reflects not only increased deal flow but also
    - An increase in potential for Realtor error
    - An increase in other external risk factors
- There are no simple answers or easy solutions to this reality
- Risk management can offer one tool to lower your risk and reduce your workload and stress

Respond in the Chat

What is Risk?

Generally Accepted Definition of Risk

"The effect of uncertainty on objectives"

What is Risk Management?

Risk management is a process designed to identify and address risk in order to enhance overall operations and ensure that an organization is able to respond to possible disruptive events

Why Should I Care About Risk Management?

Importance of Managing Risk for Real Estate Brokerages

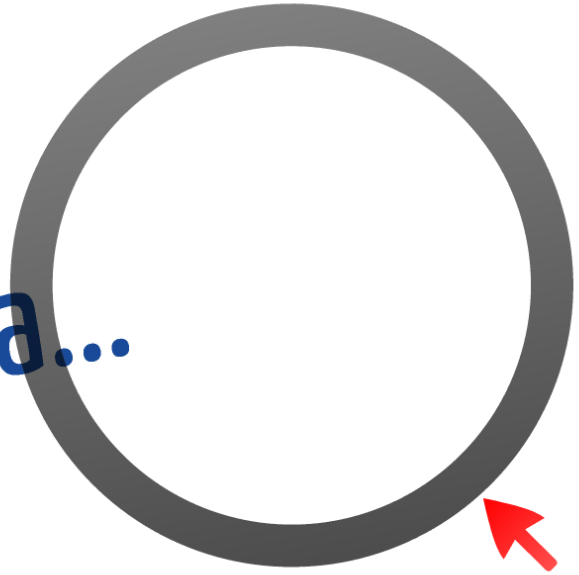
- Managing risk is about managing uncertainty
- Uncertainty is a core component of the real estate industry due to
    - The volatile nature of the market
    - The complexity of the asset
    - The capital intensive nature of the market (windfalls or wipeouts)

Importance of a Risk Aware Culture

Risk management activities contribute to enhanced organizational resiliency and a strong risk aware culture

A Brief History of Risk Management....

Risk Management
began as a small idea...



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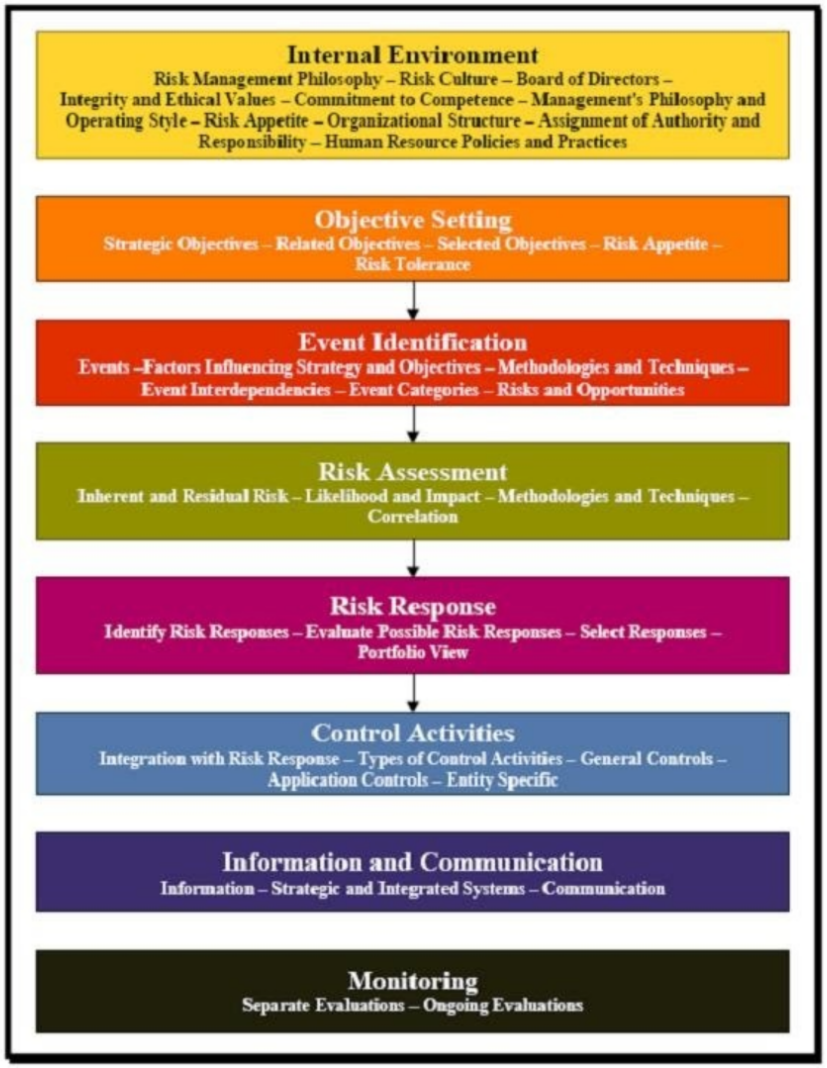
Including...

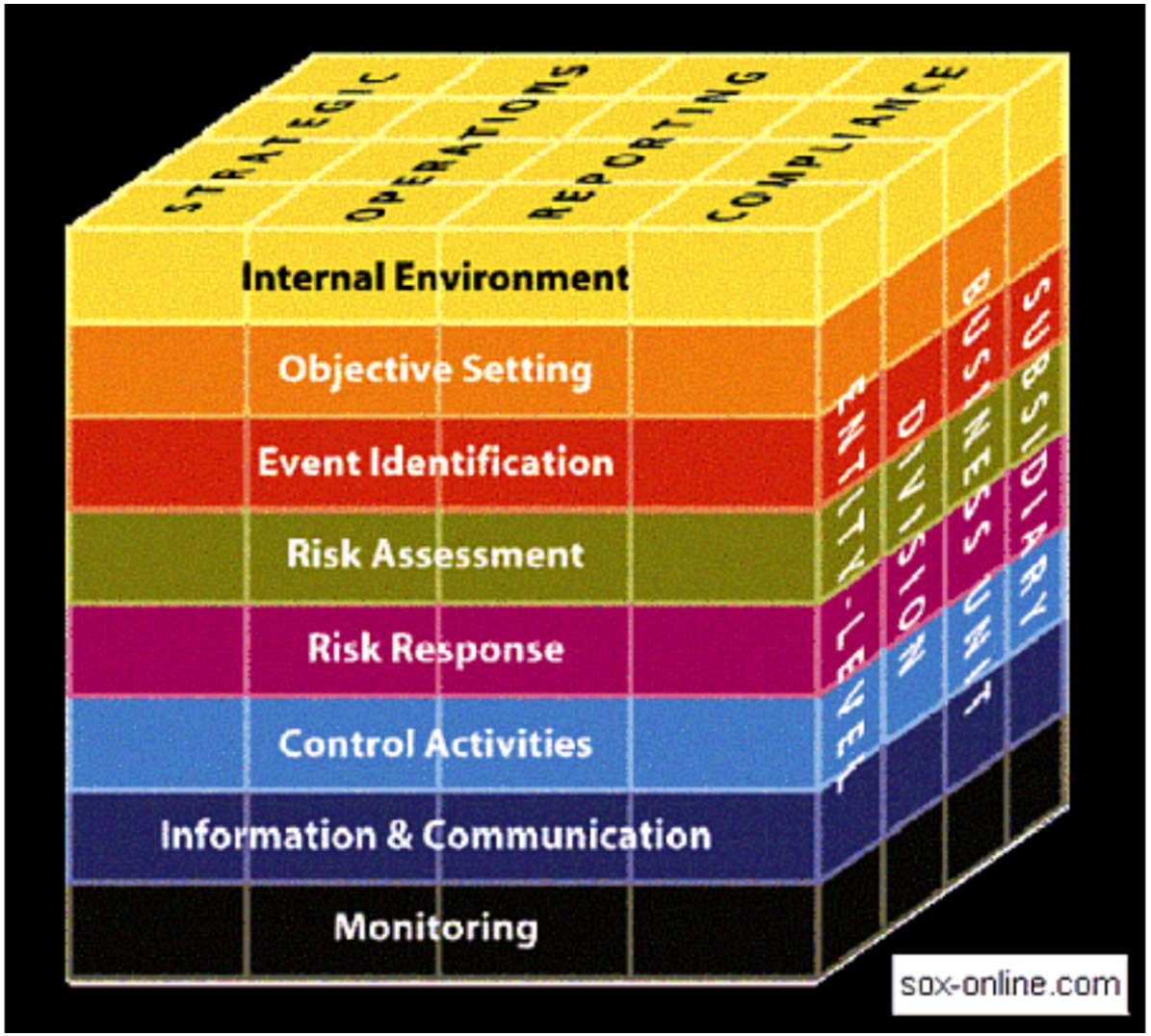
AS/NZ 4360

ISO 31000/31010

COSO ERM

Industry Standards


Internal Environment
Risk Management Philosophy – Risk Culture – Board of Directors – Integrity and Ethical Values – Commitment to Competence – Management's Philosophy and Operating Style – Risk Appetite – Organizational Structure – Assignment of Authority and Responsibility – Human Resource Policies and Practices
Objective Setting
Strategic Objectives – Related Objectives – Selected Objectives – Risk Appetite – Risk Tolerance
Event Identification
Events –Factors Influencing Strategy and Objectives – Methodologies and Techniques – Event Interdependencies – Event Categories – Risks and Opportunities
Risk Assessment
Inherent and Residual Risk – Likelihood and Impact – Methodologies and Techniques – Correlation
Risk Response
Identify Risk Responses – Evaluate Possible Risk Responses – Select Responses – Portfolio View
Control Activities
Integration with Risk Response – Types of Control Activities – General Controls – Application Controls – Entity Specific
Information and Communication
Information – Strategic and Integrated Systems – Communication
Monitoring
Separate Evaluations – Ongoing Evaluations


STRATEGIC
OPERATIONS
REPORTING
COMPLIANCE
Internal Environment
Objective Setting
Event Identification
Risk Assessment
Risk Response
Control Activities
Information & Communication
Monitoring
ENTITY
DIVISION
BUSINESS UNIT
SUBSIDIARY
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A Simplified Risk Management Process for Real Estate Brokerages dealing with Emergent Issues

Risk Identification
The first phase of the simplified risk management process is focused on the identification of possible risk events
A risk event can be defined as an occurrence or change of a particular set of circumstances that has a consequence for the organization
Risk Analysis
The second phase of the risk management process entails an analysis of the risk events that have been identified. The analysis will start with a broad look and become more specific for higher priority risk events.
Risk Treatment
The third stage of the risk management process involves a consideration of the risk treatment and development of a risk treatment plan. Risk treatments fall under one of the following four categories:
• Tolerate
• Treat
• Transfer
• Terminate

Risk Identification

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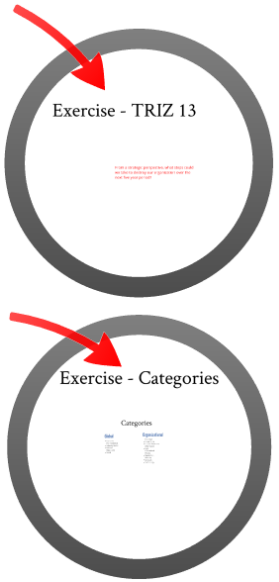


Exercise - Categories

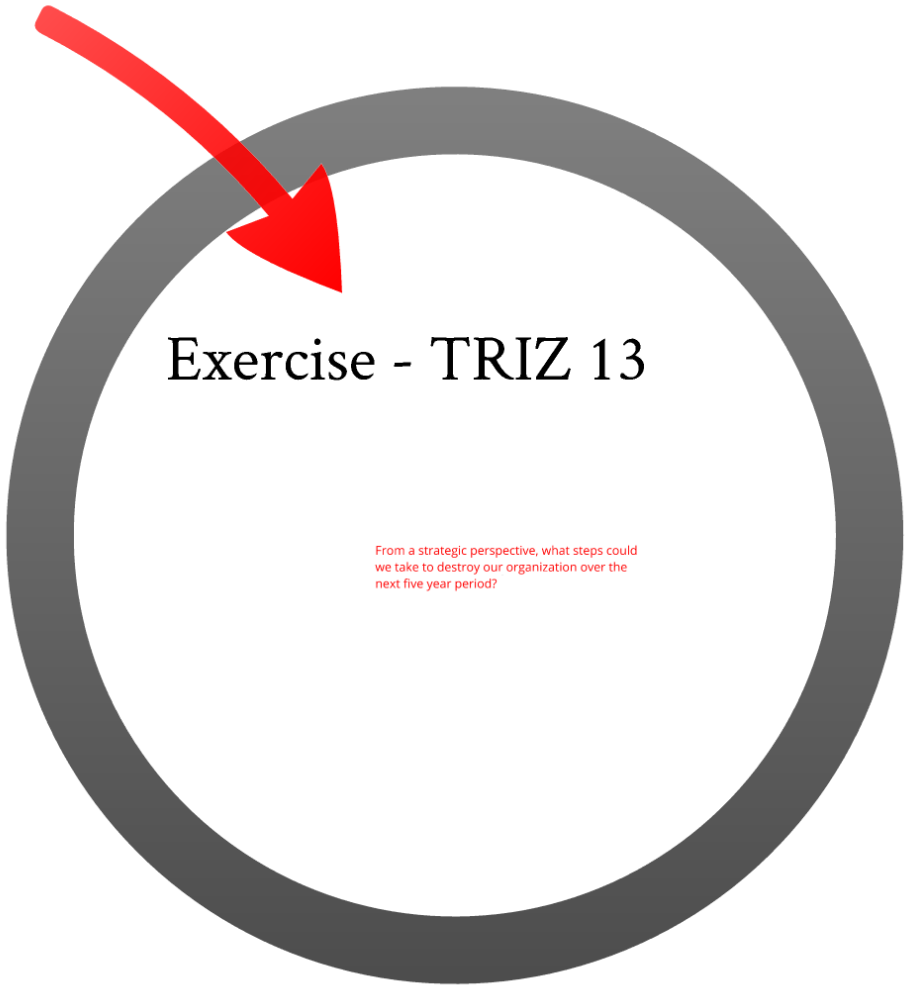
Categories

Global

- Economic
- Environmental
- Industry Sector
- Political
- Regulatory
- Social

Organizational

- Financial
- Governance
- Human Resources
- Information
- Legal
- Operational
- Project
- Reputation
- Security
- Strategic
- Technology


Exercise - TRIZ 13
From a strategic perspective, what steps could we take to destroy our organization over the next five year period?

From a strategic perspective, what steps could we take to destroy our organization over the next five year period?

- Which of these things are actually happening right now?

Risk Analysis

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Risk Treatment

The third stage of the risk management process involves a consideration of the risk treatment and development of a risk treatment plan. Risk treatments fall under one of the following four categories:

- Tolerate
- Transfer
- Treat
- Terminate

Exercise: Risk Treatment

Consider the risk event that you have been assigned and decide:

- Should this risk be tolerated or terminated?
- Are there any ways to transfer this risk?
- How can we treat this risk to either avoid it and/or minimize any potential negative impact?

Risk Treatment: Examples

- The pressure of a hot market may cause a Realtor to make a mistake on a contract
    - eg. misidentify property or price, inappropriate or no conditions, etc...

- TREAT
    - Proper Training for Realtors
    - A deal in a hot market should be approached in the same manner as a deal in a cool market, if not with ***more*** caution
    - Realtors are professionals, professionals do not rush

    - Consider First Responders

        - Do you ever see them running to a patient?
        - They are professionals and need to project sense of control
        - They can hurt themselves
        - They can miss dangerous environmental hazards
        - They will excite their nervous system causing mistakes

Risk Treatment: Examples

- In order to expidite a transaction, a Realtor may provide on the spot advice that is outside of their knowledge or expertise
    - eg. GST, PPT, Residential Tenancy

- TRANSFER
    - Realtors should ensure that they are referring advice that is outside of their expertise to another competent professional

Risk Treatment: Examples

- A Realtor may draft custom terms in a CPS that impact their clients negatively

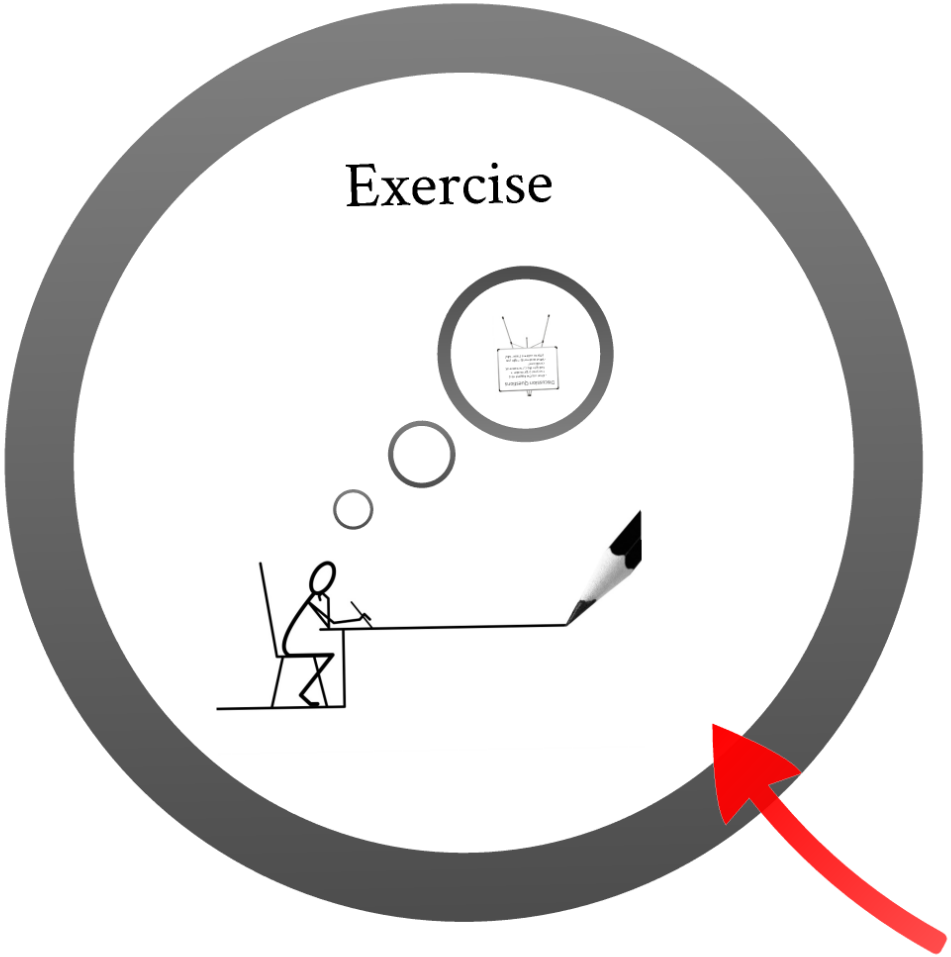
- TERMINATE
    - Realtors should not be drafting custom contract clauses
    - Standard clauses are avaliable from the Regulator, BCREA, Standard Broker Clauses
    - Consultation with Managing Broker/Lawyer if neccesary

Risk Treatment: Examples

- A buyer or seller may experience remorse after a quick transaction in a hot market

- TREAT/TOLERATE
    - Realtors should ensure that proper due diligence is conducted and proper records are kept
    - To a certain extent, this risk must be tolerated

    - Things to come: Client centered, value add courses as a risk management tool


Exercise

Discussion Questions
• What are the biggest risks that your organization is facing in the current market conditions?
• What treatments might you offer to address these risks?

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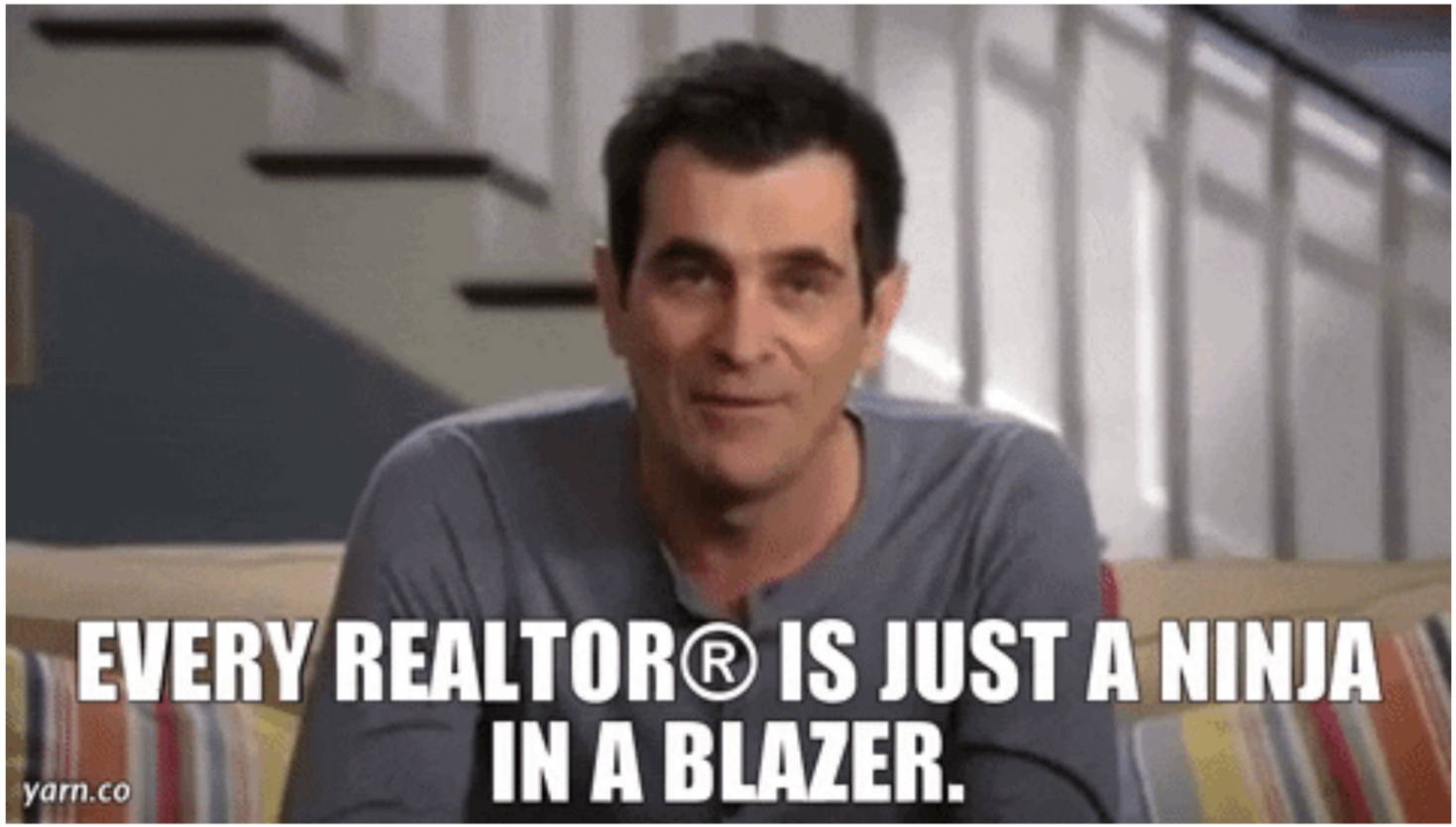
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