



## What Can Go Wrong in a Real Estate Investment?

**Understanding where risk exists — and how it can impact outcomes**

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Real estate investments are often presented through projections — expected returns, business plans, and future value.

While these projections can be useful, they tend to focus on what is expected to happen.

In practice, outcomes are shaped just as much by what does not go according to plan.

Understanding where things can go wrong is an important part of evaluating any investment.

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## Operating Performance Can Vary

At the most fundamental level, real estate performance is driven by income and expenses.

Changes in either can affect outcomes.

Common sources of variability include:

- Slower leasing activity than expected
- Tenant turnover or vacancy
- Higher operating or maintenance costs
- Unexpected capital expenditures

Even modest changes in these factors can impact cash flow, particularly in investments with limited margin for error.

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## Market Conditions Can Shift

Real estate operates within broader economic and capital market conditions.



Over time, these conditions can change in ways that affect performance.

Examples include:

- Changes in interest rates
- Shifts in supply and demand
- Local economic conditions
- Capital availability

These factors can influence both ongoing operations and the eventual sale of an asset.

Importantly, they are largely outside of direct control.

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## Execution Risk

Many investments rely on a business plan — improving operations, increasing rents, or repositioning an asset.

While these strategies can create value, they also introduce execution risk.

This may include:

- Renovations taking longer or costing more than expected
- Leasing assumptions not materializing
- Operational improvements not achieving projected results

The more complex the business plan, the more variables must align for the investment to perform as projected.

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## Leverage Can Amplify Outcomes

Debt can enhance returns, but it also introduces fixed obligations.

If performance declines, leverage can magnify the impact.

Potential risks include:



- Increased pressure on cash flow
- Reduced flexibility during periods of underperformance
- Refinancing challenges if market conditions change

As discussed in earlier sections, the level and structure of leverage play a significant role in how these risks are experienced.

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## Timing and Exit Risk

A meaningful portion of many real estate returns is realized at the time of sale.

Because of this, timing matters.

If market conditions at exit differ from expectations, outcomes can change.

This may involve:

- Higher interest rates affecting buyer demand
- Changes in valuation multiples
- Reduced liquidity in capital markets

Even if an asset performs well operationally, exit conditions can influence realized returns.

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## Liquidity Considerations

Real estate is inherently less liquid than many other asset classes.

Investments are typically held for a defined period, and exiting early may not be practical or desirable.

This means investors should be prepared for:

- Limited ability to access capital during the hold period
- Dependence on planned exit or refinance events
- Variability in timing of capital return



Understanding this characteristic is an important part of portfolio planning.

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## How We Think About Risk

We view risk not as a single factor, but as a combination of variables that interact over time.

Rather than attempting to eliminate risk entirely, the focus is on managing it through:

- Strong underlying fundamentals
- Conservative assumptions
- Disciplined use of leverage
- Business plans within our core competency

This approach is intended to reduce reliance on any single outcome and improve consistency across investments.

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## Balancing Risk and Return

Every investment involves trade-offs. Higher projected returns are often associated with greater uncertainty — whether through execution, leverage, or reliance on future conditions.

Understanding where those trade-offs exist is critical. In many cases, the objective is not to maximize returns in isolation, but to achieve outcomes that are durable across different market environments.

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## Final Considerations

No investment is without risk. The key is understanding where that risk exists and how it may impact performance.



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For investors, evaluating an opportunity should involve not only what is expected to happen, but also how the investment performs under less favorable conditions.

In many cases, long-term outcomes are shaped less by individual successes and more by the ability to manage variability over time.