Fires, floods and financial meltdowns: black swan events and property asset management

David M. Higgins (School of Property Construction and Project Management, RMIT University, Melbourne, Australia)

Abstract

Purpose

In these ever challenging times, conventional property decision theory appears inadequate to deal with black swan events: those unforeseen, rare and extreme natural and man-made disasters. The paper aims to discuss these issues.

Design/methodology/approach

This research maps, characterises and assesses these threats into: Known Knowns, Known Unknowns and Unknown Unknowns categories. Whereas, Known Knowns events can be managed and Unknown Unknowns events are difficult to even identify, those black swan Known Unknowns events that impact on a location, can be modelled based on available past and comparable evidence.

Findings

As a starting point, black swan management tools can utilise available prediction-based scale indices to highlight the possibility of these extreme events occurring in locations, and so form an important consideration for property asset managers in their decision-making process.

Originality/value

For property asset managers, this black swan management research attempts to identify, record and include those outlier events that directly impact on their property decision-making process. This can be undertaken by providing predictions as to the future occurrence of Known Unknown black swan events. These extreme events need to form an important part of a property asset manager's decision-making process. If overlooked, black swan events can have disastrous consequences for the valued client – building owner.

Keywords

Decision making  Property management

Citation


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Black swan events, which are defined as rare and unexpected events with severe consequences, have come and gone throughout history. In today's Markets in a Minute chart from New York Life Investments, we explore the sell-off size and recovery length for some of these events. Wars, Viruses, and Excessive Valuations. The Oil Embargo, Black Monday, and the Global Financial Crisis are notable outliers, with the recovery spanning a year or more. After Black Monday, the Federal Reserve reaffirmed its readiness to provide liquidity, and the market recovered in about 400 trading days. Both the 1973 Oil Embargo and 2007 Global Financial Crisis led to U.S. recessions, lengthening the recovery over multiple years. COVID-19: How Long Will it Last? Black Swan Event 1997: Asian Financial Crisis. This financial crisis came at the end of staggering growths of the so-called "Asian Tigers" including countries like South Korea, Thailand, Malaysia, Indonesia, Singapore and the Philippines. The popping of the asset bubbles resulted in losses of over 70% in the currencies & stock markets of these countries. The unsustainable property market of Thailand proved to be the tipping point as it collapsed after Somprasong Land's default and Finance One's bankruptcy in early 1997. The official currency Thai Bhat was eventually floated & devalued massively with the ensuing instability. Malaysian Ringgit, Indonesian Rupiah, and Singapore Dollar followed suit as the contagion spread to the neighboring Economies. For property asset managers, this black swan management research attempts to identify, record and include those outlier events that directly impact on their property decision-making process. This can be undertaken by providing predictions as to the future occurrence of Known Unknown black swan events. These extreme events need to form an important part of a property asset manager's decision-making process. If overlooked, black swan events can have disastrous consequences for the valued client – building owner. Keywords. Decision making. Property management. Citation.