SUMMARY

Real estate investment, is a relatively high risk business activity in a complex and ever-changing environment. Therefore, detailed studies on factors affecting a real estate investment are required. Feasibility analysis is commonly prepared to assess the attractiveness of a real estate investment opportunity. However, there are instances whereby the integrity of feasibility analysis in real estate investment decision making is questioned.

Time value of money is of essence in the evaluation of an investment. Financial analytical approaches which explicitly consider the change in cash flow and the time value of money such as the Discounted Cash Flow (DCF) method has become popular and is widely used by real estate practitioners. However, the use of residual valuation approach is still prevalent as a useful benchmark analytical tool, especially for the evaluation of real estate development projects.

The objective of this study is to examine factors that are deemed critical in the evaluation of real estate investment. A mail survey and an interview survey were conducted to solicit information on the type of feasibility analysis used by the local developer companies, and factors that are considered important in feasibility analysis and real estate investment decision making.

The outcome of the mail survey shows that the DCF method is used in the preparation of the majority of feasibility analysis. In short, the findings of both the mail and interview surveys support the hypotheses that:

(a) Feasibility and decision making of a real estate investment jointly are, a function of the following factors: investment profitability, company’s strategy, risk perceived, financial capability, government policy, economic condition, and decision maker’s gut feel.

(b) Investment profitability per se is a key but not the only factor which determines a real estate investment decision.

Undoubtedly, assumptions used in a feasibility analysis affect the outcome of the analysis and consequently, the investment decision. The determination of assumptions hinges on an analyst or a decision maker’s experience, training, and even one’s inherent attitude towards risk. However, assumptions that are based on well-researched information and timely market data will reduce uncertainties, and uphold the integrity of a feasibility analysis.