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Tooled up for measuring property derivative risk

Risk Integrated, a consulting and technology firm focusing on risk management for specialized finance, has expanded the capabilities of its Specialized Finance System (SFS) by adding cashflow analysis for the use of property derivatives in commercial real estate (CRE) lending.

Risk Integrated is the first organization to provide risk measurement tools for property derivatives, enabling investors and lenders to hedge risk exposure and help stabilize CRE assets.

The inclusion of property derivatives into the risk management system provides CRE professionals with a deep insight into how property derivatives can be used within a CRE transaction, to improve the risk profile. This allows investors and lenders to quantify the value of these derivatives in reducing the risk of the deal, and judge whether the reduction in risk is worth the expense of the instrument. This is becoming especially important as the market place becomes more volatile and property derivatives become more commonly traded.

Dr. Chris Marrison, CEO, Risk Integrated, states, "Given the current volatile market, property derivatives are one of the ways that investors and lenders can protect their assets. By making this addition to our system, we are providing a unique tool that allows our customers to quantify the true effectiveness of adding a derivative into any specific deal."

The SFS uses simulation to analyze market volatility and stresses, incorporating options pricing theory to quantify the year by year risk in real estate transactions.

Recent turmoil in the CRE sector and the heightened risk sensitivity to lease conditions, interest rate movements, tenant defaults and failure to refinance, has highlighted the potential of using property derivatives to help protect individual deals and whole portfolios. Risk Integrated's simulation approach makes it easy to add complex derivatives into highly structured deals and quantify the effect across the portfolio.

By adding property derivatives for swaps, caps, floors and collars, the deal cashflows are modified and the risk profile can be changed to help generate more stable returns on lending or investment.

The SFS can base the derivatives on any property index, including those provided by IPD and NCREIF. The SFS technology is available as either an in-house installation or as an ASP service running across the web. ◘