

Ayosha Orth

Real Estate Transactions. Strategic Relevance of Due Diligence

An Integrated Transaction Cost Theory Approach

Master's Thesis

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Master Thesis

**Real Estate Transactions: Strategic Relevance of Due Diligence –
An Integrated Transaction Cost Theory Approach**

By Ayosha Orth

Master Thesis

**Real Estate Transactions: Strategic Relevance of Due Diligence –
An Integrated Transaction Cost Theory Approach**

By Ayosha Orth

Submitted in the fulfillment of the requirements for the degree of a

Master of Science

at the University of Applied Sciences Münster, Germany
and the University of the Basque Country, Spain

Author: Ayosha Orth

January 2015

*“Caminante,
son tus huellas el camino, y nada más;
caminante, no hay camino, se hace camino al andar.
Al andar se hace camino, y al volver la vista atrás
se ve la senda que nunca se ha de volver a pisar.
Caminante, no hay camino, sino estelas en la mar.”*

by Antonio Machado, also known as
Antonio Cipriano José María y Francisco de Santa Ana Machado y Ruiz,
Spanish poet (* 1875 Sevilla, Spain; † 1939 in Collioure, France)

Abstract

The sub-prime mortgage crisis caused significant damage to the international real estate market. Did the crisis teach us anything? In practice, yes. For one, examinations in the form of due diligence of real estate assets have become more frequent and more thorough. Activities on the real estate market in Germany are recovering robustly and have almost reached pre-crisis levels. Thus, the practice of due diligence is increasing correspondingly.

However, the literature on due diligence real estate is still exiguous and lacks outright theoretic approaches. This thesis investigates the relevance of due diligence within real estate transactions by contextualizing it within integrated Transaction Cost Theory approaches and its behavioral assumptions. Transaction-cost and agency-theory parameters such as bounded rationality, opportunism and uncertainty offer approaches for describing how due diligence reduces information asymmetries, uncover hidden characteristics, and therefore prevent adverse selection. The conducted multi-method qualitative study affirms the strategic relevance of due diligence within real estate transactions.

Key words: *Due Diligence, Real Estate, Asymmetric Information, Transaction Cost Theory, Hidden Characteristics, Uncertainty, Adverse Selection*

Abstracto

La crisis de las hipotecas de alto riesgo ocasionó un daño importante en los mercados inmobiliarios internacionales. ¿Nos ha enseñado algo la crisis? En la práctica, si. Exámenes en forma de diligencia debida a activos inmobiliarios se han hecho más frecuentes y más profundos. Las actividades en el mercado inmobiliario alemán se están recuperando enérgicamente y casi han alcanzado niveles anteriores a la crisis. Por lo tanto, la práctica de diligencia debida está aumentando en consecuencia.

No obstante, la literatura sobre diligencia debida inmobiliaria está aún exigua y falta de enfoques teóricos. Esta tesis investiga la relevancia en la diligencia debida a transacciones inmobiliarias contextualizándola con enfoques de la teoría de costes de transacción y sus supuestos de actitud. Los parámetros de la teoría de costes de transacción tal como racionalidad limitada, oportunismo e incertidumbre, ofrecen propuestas para describir la diligencia debida, como reduce las asimetrías de información, descubre las características ocultas, y, por consiguiente, evitan la selección adversa. El estudio de métodos múltiples cualitativos realizado, afirma la relevancia en la diligencia debida en transacciones inmobiliarias.

Conceptos clave: diligencia debida, inmobiliario, asimetrías de información, la teoría de costes de transacción, características ocultas, incertidumbre, selección adversa

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