Ch 8 Understanding Real Estate Markets
Ch 9 Economics of Regional and Community Growth

Idealized Supply & Demand Model

- Many buyers and sellers (Liquidity)
- Knowledge of the market (Abundant information at low cost)
- Products are identical or similar (homogeneous product)
- Supply is flexible in short term
- Purchases are small and frequent

RE Resources: Supply Factors - Improvements

- Real estate improvements - buildings and other structures
  - Supply is fixed in the short run
  - Supply of services is responsive
  - Additions to supply are small
    - The accelerator effect
  - Additions based on future demand
  - The cost and availability of financing
Impact of Uniqueness

- Defining real estate markets
  - Geographic Location
    - National, regional, local, neighborhood
  - Property type
    - retail, commercial, industrial, residential, agricultural
  - Use type
    - owner-user/owner-occupied
    - investment property

Real Estate Resources:
Supply Factors - Land

- National land supply
  - Urban areas - 70% of US population lives on 1.6% of US land
  - Agricultural areas - ¼ of total US land area
- Local land supply - Restrictions
  - geographical barriers
  - land use policies (zoning, development permits)
  - available utilities
  - environmental regulations

Real Estate Resources:
Demand Factors

- Income
- Employment
  - overall employment
  - employment characteristics
- Population
  - total
  - growth rate
  - characteristics (ex. Age)
  - regional changes (ex. NE to Sunbelt)
**Real Estate Resources:**

**Demand Factors**

- Changes in Demand (ex. increase in demand)
  - Increase in use of existing properties
    - lower vacancy rate
  - Increase in prices and rents
  - Increase in construction and supply
  - Cyclical nature of real estate markets

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**Highest and Best Use**

- That use of the land likely to produce the greatest long-term economic return to the owner.
- Four tests
  - legally permissible
  - physically possible
  - financially feasible
  - maximally productive

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**Highest and Best Use**

- Vacant land
- Land with improvements
  - Interim use
  - Adaptive use
- Returns to owner versus returns to society
Price-Distance Relationships

- Hurd 1903 “...more accessible a property, the higher its value.”
- Land value -> Rent -> Location -> Accessibility (distance)
- Land value -> Accessibility (distance)
- Land value gradients (see graph)
- Rent versus transportation costs

Models of Urban Growth Patterns

- A city may grow in several ways
  - Vertically
  - In-filling
  - Extension of settled areas
- Growth Models
  - Concentric Circle growth
  - Axial growth
  - Sector growth
  - Multiple-Nuclei growth

Economic Factors Influencing the Growth/Decline of Cities

- Community growth factors
  - Transportation facilities
  - Natural resources
  - Educational facilities
  - Labor force
  - Climate
  - Leadership
Location of People

Why do people locate where they do?

Concept of an Economic Base

Export activities (basic activities)
- Agriculture, manufacturing, mining, and wholesale trade

Population serving activities (non-basic activities)
- Construction, public utilities, retail trade

Analyzing Local Real Estate Demand

Short-run Demand
- Current supply of real estate improvements
- Current industrial structure
- Recent changes in the local economy
- Likely economic changes in the near future
Analyzing Local Real Estate Demand

- Long-run Demand
  - Long-run economic prospects for the local economy
  - National & regional trends likely to affect the local economy
  - Likelihood of new firms coming into the area

Public Infrastructure in the Growth Process

- Transportation facilities
- Water and Sewer facilities

Dynamics of Neighborhood Change

- What is a neighborhood?
  - A portion of a larger community in which there is a homogeneous grouping of inhabitants, buildings, or business enterprises.
- Neighborhood life cycle
  - growth
  - maturity
  - decline
  - revitalization or gentrification