

REAL ESTATE PRINCIPLES

ELEVENTH EDITION



CHARLES F. FLOYD AND MARCUS T. ALLEN

REAL ESTATE PRINCIPLES

ELEVENTH EDITION

SAMPLE

Dearborn[™]
Real Estate Education

CHARLES F. FLOYD AND MARCUS T. ALLEN

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REAL ESTATE PRINCIPLES ELEVENTH EDITION
©2014 Kaplan, Inc.
Published by DF Institute, Inc., d/b/a Dearborn Real Estate Education
332 Front St. S., Suite 501
La Crosse, WI 54601

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Printed in the United States of America

ISBN: 978-1-4754-2173-6 / 1-4754-2173-7
PPN: 1515-0111

DEDICATION

This book is dedicated to
R. W. Barber
a man of the land
and
C. O. Floyd
a man of business.
—*Charles F. Floyd*

This book is dedicated to
Rhonda, Melanie, and Issabella.
—*Marcus T. Allen*

SAMPLE

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P R E F A C E

Welcome to the eleventh edition of *Real Estate Principles*! As one of the most popular and well-respected texts in college-level real estate education, this book has served as the framework for a practical and rigorous learning experience for introductory real estate students at schools across the nation since its first edition was published in 1981. This edition continues that tradition by incorporating the latest industry advances and education technologies into a comprehensive, student-friendly presentation of the real estate “body of knowledge.” We are absolutely convinced that students who master the material presented in this text will become better-informed real estate market participants whether their primary real estate interests lie in consumption, investment, brokerage, appraisal, law, property and asset management, or any combination of these aspects of real estate.

■ PEDAGOGICAL DEVICES

For students, the book contains the following pedagogical devices designed to enhance their learning experience:

- Each chapter begins with a Chapter Preview that clearly sets forth the learning objectives.
- The Key Terms discussed in each chapter appear in boldface for emphasis. These terms are succinctly defined in the end-of-book Glossary.
- Many tables, figures, and photographs are provided throughout the text to help readers visualize the topics and incorporate them in their knowledge base.
- Each chapter ends with a Chapter Review that concisely summarizes the key concepts.
- Thought-provoking review exercises are provided at the end of each chapter.
- Suggested reading lists for each chapter are included to direct students who wish to learn more about specific concepts to additional sources of information, including books, academic journals, practitioner journals, newspapers, magazines, and internet sites.

INSTRUCTOR SUPPORT

For instructors, we have developed an extensive collection of support materials that can be easily downloaded (with the proper password) from the publisher's website at www.dearborn.com. The materials include

- detailed lecture notes in Microsoft PowerPoint and Microsoft Word format for each chapter (for use with a computer display projector or as transparency slides);
- assignment exercises for each chapter (with answers); and
- multiple-choice, true-false, and short-answer questions by chapter.

Readers familiar with previous editions of this text will be pleased to find that this edition continues to incorporate many of the special features from previous editions that enhance the students' learning experiences. Close-Ups, Legal Highlights, People Profiles, and Case Studies are liberally sprinkled throughout the book to demonstrate how real estate principles can be observed and applied in the "real world."

FLEXIBLE PATHWAYS THROUGH THE TEXT

Because real estate is such a dynamic and diverse discipline, we have purposefully designed *Real Estate Principles* in such a way that instructors who wish to approach the material from their own preferred direction can do so with relative ease. Each chapter can be treated as a stand-alone learning module within the real estate body of knowledge. While we recommend presenting the material in the chapter order provided for general business students, an instructor who wishes to focus on finance and investment analysis issues can easily shift Chapters 16 through 20 to the beginning of the semester (after Chapter 1) to allow adequate time for in-depth coverage. Or an instructor who wishes to focus on real estate economics might consider following the first chapter with Chapters 11 through 15. We would be pleased to get feedback from instructors describing how they choose to sequence the chapters in their courses.

■ ACKNOWLEDGMENTS

No project of the magnitude of this book can be accomplished without a spirit of teamwork and mutual respect between all the parties involved. We wish to sincerely thank all of the people who provided comments, suggestions, and other invaluable forms of support in the research, writing, and production process, especially Jeffrey J. Rymaszewski, senior lecturer, University of Wisconsin at Milwaukee, Frank T. Cook, and Ron Williams.

In addition, special thanks are due to the students in our classrooms who served as guinea pigs for the new material.

Finally, we hope that everyone who reads this book will be able to use the lessons contained herein to improve their real estate decision-making skills and, ultimately, to enrich their lives with respect to real estate resources.

Charles F. Floyd, PhD
University of Georgia

Marcus T. Allen, PhD
Florida Gulf Coast University

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Why Study Real Estate?



CHAPTER PREVIEW

Why study **real estate**? Why is it important? What are the characteristics that make real estate different from other types of assets? Fundamentally, people must have places to live and businesses must have locations for their activities. As a result, real estate is a vital resource that touches the economic lives of all people. A thorough understanding of the complexities of real estate resources and the markets in which they are traded enables us to make informed choices regarding real estate for either personal or business use. The objective of this book is to present the general principles necessary for effective real estate decision making. The text also serves as a starting point for more advanced study of the concepts and issues facing real estate market participants.

REAL ESTATE TODAY

CASE STUDY
The Importance
of Location

CASE STUDY
The Gestation
of Park Springs

THE ROLE OF REAL ESTATE STUDIES IN BUSINESS EDUCATION

When you first learned that your college or university offers a real estate principles course as part of its business school curriculum, you may have thought that the focus of the course would be to prepare for a career as a real estate broker. While real estate brokerage is an excellent career choice for many people, this book does not assume that a career in brokerage is your motivation for studying real estate issues. Instead, we present the principles of real estate from the perspective of the user of real estate resources. These principles provide a foundation for effective real estate decision making, whether you intend to make a career in the real estate industry or simply to become more knowledgeable about your personal real estate transactions.

In most universities and colleges, real estate is regarded as a specialty area under the general umbrella of business studies. As such, a real estate principles course covers issues and topics unique to the real estate discipline that are much too specific for adequate coverage in other areas of academic study. Because of the specialized knowledge required for effective real estate decision making, real estate issues deserve independent attention in a business school curriculum. The intricacies of real estate resources and markets can baffle the ill-prepared decision maker, but a solid foundation in real estate principles will help you make effective personal and business real estate decisions throughout your life and career. In addition, the topics covered in this text will serve as a springboard for those students who wish to pursue a more detailed study of real estate in subsequent courses.

PERSONAL AND BUSINESS-RELATED REAL ESTATE DECISIONS

A thorough understanding of real estate principles is extremely important for real estate decision making in both personal and business-related venues. As individuals, all of us will probably face the following questions several times over the years:

- Should I buy a house or a condo or should I lease an apartment for my personal residence?
- In what neighborhood do I want to live?
- What type of financing should I use, and how do I arrange it?
- Should I use a broker to sell my property or try to sell it myself?
- How should I structure the sales contract to get the best deal?
- How do I decide which property I should invest in?

The same issues that face us as individuals also apply in the business environment. Consider a company that requires additional office space to expand its operations and compete effectively in its product market. Such a company faces many questions that can be addressed only with the knowledge of real estate principles. The following are examples:

- Should the company buy or lease additional space? If the company leases space, how should it structure the details of the lease agreement to best serve its objectives?

- If the company decides to buy more real estate, should it build a new property or purchase an existing one?
- How should the company finance the purchase or development?
- Should the company acquire a larger building than it currently requires and lease the additional space to tenants until the company needs it?
- Should the company consider relocating the corporate headquarters to a different location, either in its current city or in another city altogether?

Appropriate answers to these and other important questions require familiarity with the overall operation of real estate markets, as well as specific knowledge of legal issues, transaction details, and the financial framework of real estate resources. For this reason, real estate principles are a fundamental component of undergraduate business education, regardless of your chosen field of study.

ORGANIZATION OF THIS BOOK

Our goal is to present some of the basic principles of real estate in such a manner that you will be well prepared to anticipate and evaluate changing market conditions and make real estate decisions that best serve your personal and business objectives. We have divided the topics considered in the text into four categories:

1. **Part One, Real Estate Legal Analysis** (Chapters 2–7) considers issues related to the legal concept of real estate ownership. We define various ownership interests one can obtain in real estate, deed and legal description methods, and private and public limitations on ownership.
2. **Part Two, Real Estate Service Industries** (Chapters 8–10) discusses the real estate services industry, including brokerage, property management, and appraisal.
3. **Part Three, Real Estate Market Analysis** (Chapters 11–15) considers the dynamics of real estate markets as a result of national, regional, and local influences on property values and uses. In addition, we review the classic models of urban growth and discuss various aspects of the land development process. We also examine the residential, commercial, and industrial development process.
4. **Part Four, Real Estate Finance and Investment Analysis** (Chapters 16–19) examines the financing of real estate investment and ownership, and real estate investment analysis.

The remainder of this introductory chapter sets the stage for the topics to be addressed throughout this text by describing the special economic characteristics of real estate, the economic importance of real estate, and various career opportunities in the real estate industry.

SPECIAL CHARACTERISTICS OF REAL ESTATE

What is real estate? Simply defined, *real estate* is land and things attached to it such as buildings and other improvements to the land. **Real property** consists of the legal interests associated with ownership of the physical real estate. In practice, however, the two terms are often used synonymously. All other movable property such as automobiles, furniture, boats, and clothing is known as **personal property**. As an economic resource, real estate has some distinct characteristics that distinguish it from other types of resources. These characteristics are

- fixed location;
- uniqueness;
- interdependence of land uses;
- long life;
- long-term commitments;
- large transactions; and
- long gestation period.

Fixed Location

The characteristic of real estate that distinguishes it from all other types of economic resources is its fixed location. If there is an oversupply of wheat in Kansas, or of automobiles in Michigan, they can be moved to areas of relative scarcity. This is not true of real estate resources. If there is an oversupply of condominiums in Miami, office space in Manhattan, or shopping centers in Minneapolis, they cannot be transported to other communities where the demand is stronger. A tract of land, of course, cannot be moved a few feet up the street to help meet demand for space at that site. Thus, the success of real estate acquisition, development, and investment decisions is directly affected by the forces of supply and demand in a local area.

Uniqueness

Because real estate is fixed in location, every parcel is unique or, to use a fancy term, heterogeneous. Even subdivision lots located side by side are not perfect substitutes for each other because of differences in such factors as topography, tree cover, and view. These factors often create large differences in property values. For example, lots fronting on a lake will probably sell for much more than lots just across the street; lots with a spectacular mountain view may sell for many times more than nearby ones without the view.

Interdependence of Land Uses

Real estate's fixed location leads to another economic characteristic: interdependence of land uses. The use of real property depends greatly on the provision of

REAL ESTATE TODAY

CASE STUDY

The Importance of Location

How important is location to the value of real estate? Very important in the case of a 77-square-foot “studio apartment” in the exclusive Knightsbridge neighborhood of London. The former storage closet, originally conceived as a maid’s room, is only slightly larger than a prison cell, but is priced at \$335,000, or about \$4,500 per square foot. Moreover, the room has no electricity or heat, which would cost an additional \$59,000 to make it habitable. Rather pricey, but the tiny apartment is

located in one of the wealthiest neighborhoods in the world and is within walking distance to exclusive stores such as Harrod’s and the city’s iconic Hyde Park.

Almost unbelievably, other ultra high-end London properties have been selling for even higher prices, sometimes as much as \$6,000 per square foot. By comparison, the closet-sized apartment is a bargain. The old real estate axiom that the three most important factors in real estate are location, location, and location certainly applies in this case.

public services, the uses made of nearby land, and the general economic vitality of the neighborhood and community.

It is extremely difficult to use land to its full economic potential, particularly in an urban setting, unless adequate public services are provided and neighboring land is used in complementary ways. Even agricultural lands need to be served by roads, and such basic utilities as electricity and telephone service are necessary for practical homestead use. As we move to denser residential development, public water and sewerage systems are essential as are such governmental services as education, police and fire protection, and various social services. Land must be converted to public use for parks, schools, and other governmental services, particularly transportation facilities. If adequate governmental services and public land uses are not available, it will be difficult or even impossible to develop land for residential, commercial, or industrial use.

The use of land is also affected greatly by nearby land use. If a large tract of vacant land is located near areas of expanding residential and commercial development, this location should increase both the land’s potential use and its value in the marketplace. Conversely, the value of land may be affected adversely by its proximity to “undesirable” uses. It would probably be difficult, for example, to develop a single-family housing development next to a chemical plant or slaughterhouse. Such uses, however, particularly if served by transportation facilities and other public services, may make nearby land valuable for industrial purposes.

The economic vitality of a neighborhood, community, or region greatly affects the demand for real property and its value. If the economy of the area is expanding,

the population also will increase, bringing about a corresponding increase in the demand for residential, commercial, and industrial land. Conversely, if the economy of the area is in temporary or long-term decline, the demand for real estate and real estate value also will tend to decline.

It is the interdependence of land uses that leads to the existence of both private and public land-use controls, topics we will study in Chapters 3 and 4. The use of land affects the owners of other land more than the use of almost any other type of private property and may create costs to the public at large. For example, the filling of floodplain lands (the low-lying land near streams) to make them suitable for high-density residential use may cause other owners of land on the floodplain to be affected adversely in periods of heavy rainfall. If other landowners also fill in their portion of the floodplain, a flood hazard may be created that will require large public expenditures to alleviate.

Long Life

Although its ability to generate income may change over time, land is virtually indestructible. Additionally, *real estate improvements*—that is, buildings on the land—generally have very long lives. For example, a family would expect a new home to last as long as they wanted to live there and beyond, and many houses last for a century or more when maintained properly. Apartment houses, shopping centers, and other types of income-producing property also have very long lives.

Long-Term Commitments

The long lives of real estate improvements mean that investment decisions are, by their very nature, long-term commitments. Although the immediate prospects for the production of income are very important in real estate investment analysis, the factors that influence income generation over the long term are equally critical. For example, the proximity of a hotel to a heavily traveled highway is a predominant factor in the financial success of the hotel. If the hotel is built in a location that soon will be bypassed by a new freeway, it probably will not be a successful investment during much of its life. Conversely, shopping centers are often built somewhat ahead of the market to gain advantageous location in advance of expected population growth.

The characteristics of long life and long-term commitments force the real estate investor and developer to establish realistic, long-term outlooks if they want to make successful investment decisions. The real estate investor who merely assumes that favorable economic trends will continue will probably be unsuccessful. For example, most of the problems that arose during the recent decline in real estate prices occurred because investors and financial institutions regarded the future with unbridled optimism. Investors should analyze carefully the factors that have caused economic trends to be favorable in the past and try to ascertain what will happen to these factors for some years into the future.

Large Transactions

Another important economic characteristic is the relatively large size of real estate transactions. Because they involve large expenditures, real estate transactions are not entered into either lightly or frequently. A home is by far the average family's largest single purchase. Investment in income-producing real estate requires even larger outlays.

The large size of real estate transactions means that buyers usually have to rely at least partially on some type of outside financing. This economic characteristic has led to the rise of the real estate finance industry. Both buyers and sellers generally need assistance to analyze the marketplace, evaluate long-term investment decisions, arrange financing and, in general, deal with the complexities of these transactions.

Long Gestation Period

A final economic characteristic of real estate is the long **gestation period** of real estate development projects. The time between the conception of a development project and its actual completion and subsequent entry into the available supply may be several years. Suppose a group of investors decides to develop an apartment complex. To complete this project, they first must acquire the land, then have engineering and architectural plans drawn for the site and buildings, secure zoning and other regulatory approvals, arrange financing, and construct the improvements.

Long delays may occur at any of these steps. For example, it may be difficult to secure approval from the zoning board, or it may be necessary to wait several months for the completion of a new sewer line, or bad weather may delay construction.

The long gestation period makes the supply of real estate slow to respond to increases or decreases in demand. Because the supply cannot be increased quickly, increases in demand often result in rapid upward price movements unless an excess supply exists. Conversely, demand may decline during a project's gestation period, making it less valuable upon completion than originally anticipated. This is yet another reason the real estate developer must analyze factors affecting future demand and supply. There may be a strong market for, say, office space in a certain area at present. This does not necessarily mean that the strong demand will continue. Many investors have discovered, to their immense sorrow, that by the time the project was completed, demand for the products had declined. Or they may not have fully considered the impact of other projects that were being built at the same time. Successful real estate investment requires a thorough, long-term economic perspective.

REAL ESTATE TODAY

CASE STUDY

The Gestation of Park Springs

The development history of the Park Springs continuing care retirement community provides an excellent example of the long gestation period for real estate

development: 10 years from conception to generating income.

In 1994, developers Andy and Kevin Isakson bought a 110-acre former private airport site that straddled two county lines in suburban Atlanta in order to obtain the two acres needed to complete the assemblage for a Super Target shopping center site. They then sold part of the remainder for a parking lot for the 1996 Atlanta Olympics but were left with 54 acres that had limited access and no utilities. In order to make the tract suitable for development they worked with the two counties involved and the state department of transportation to relocate an adjoining road to make the site more accessible. This also meant that the site would be surrounded on three sides by 3,500-acre Stone Mountain State Park. In order to gain utilities they had obtain water from one county and sewerage from the other. Finally, after four years of effort the site was ready for development. Now came the need to obtain zoning.

The plan was for a mixed-use development including apartments and retail space. This proposal was met with considerable community opposition based on a fear of an influx of school children and an increase of traffic in the already congested area. Thus, the initial zoning proposal failed. Then one of the community leaders suggested an age-restricted senior retirement community. This was attractive to the community because there wouldn't be additional local school children and the retired

residents would generate little traffic, particularly at busy hours. The developers responded with a proposal that included 398 residences restricted to persons 65 years of age and older. This proposal gained overwhelming community support and was approved after two more years of effort. This brings us to the year 2000, six years after purchase, with nothing but expense and no income from the property.

The developers saw the potential for success for a continuing care retirement community, one where seniors could purchase the right to occupy an independent living residence with the option of moving to assisted living or skilled care nursing facilities on the same site as their health needs changed. They offered a variety of units, ranging from an 800-square-foot one-bedroom apartment for \$135,000 to a 2,400-square-foot detached two- to three-bedroom home for \$600,000. For this entry fee the purchaser obtained the right to occupy the unit for his or her lifetime and the use of the development's facilities, including a fitness center, library, woodworking shop, pottery shop, and three restaurants. A monthly fee covered all utilities, biweekly cleaning, all maintenance, and taxes. At owners' death, 90% of the entry fee would be refunded to their estate.

The concept met with great market acceptance, and finally in 2004, 10 years after the property was purchased, the first units were sold and the project began generating a cash flow—not yet a profit, but at least a cash flow. By 2007, all but 16 of the units had been sold, and entry fees had risen by 45%, generating a healthy profit for the developers upon resale of these units. Even

(continued)

REAL ESTATE TODAY

CASE STUDY

The Gestation of Park Springs

so, the development didn't begin to really show an overall profit until 2009. Park Springs has been a resounding success, but only with developers who were able to surmount the many obstacles inherent in the site and absorb the large development costs during the more than 10-year gestation period.

**THE ECONOMIC IMPORTANCE OF REAL ESTATE**

Real estate is a vital component of the national economy and constitutes a large portion of national wealth. As of the first quarter of 2014, land and structures comprise about 21% of the total assets of households and about 33% of the total assets of businesses in the United States (the remainder consists of equipment and inventories). Real estate accounts for about 5% of the nation's gross domestic product and about 36% of gross private domestic investment. In addition to tangible assets, individuals and businesses frequently borrow against real estate assets, which creates financial assets in the form of mortgages and mortgage-backed securities. In early 2014, the total outstanding mortgage debt in the United States was more than \$13.3 trillion.

The economy of the United States is especially sensitive to changes in owner-occupied residential real estate (housing) values. The most recent example was the overall negative economic impact the decrease in housing values in the 2000s had on the economy of the United States as well as impacts throughout the world. The shocking declines in overvalued housing stemmed from aggressive investment in mortgage-backed securities, which led to relaxed loan qualification standards and a variety of alternative mortgage loan products. These relaxed standards and so-called *subprime loans* enabled many people to obtain loans for which they would not have otherwise qualified. In some cases, borrowers did not have to provide any proof of their income or other assets (so-called *liar loans*). Some loan products allowed

borrowers to pay only the interest due on the loan (instead of interest and principal amortization, as in traditional loans) for the first few years of the loan. Some loans had reduced initial interest rates (so-called *teaser rates*) that lowered the initial monthly payments but required higher interest rates (and higher payments) after the first few years. Some loans allowed borrowers to borrow more than the value of the house being pledged as collateral for the loans.

Easy access to mortgages increased demand for housing and resulted in rapidly increasing housing values. According to the S&P/Case-Shiller Home Price Index, housing values increased by more than 47% between 2000 and 2006. By mid-2006, however, many subprime borrowers realized they could not afford their loan payments (especially those with required interest rate adjustments), and the number of delinquent subprime loans started to rise dramatically. By the first quarter of 2007, more than 17% of subprime loans were delinquent, and foreclosures were rapidly increasing. Investor demand for mortgage-backed securities that relied on payments from subprime borrowers for their cash flows dried up very quickly. Lenders quickly instituted more prudent borrower qualification standards and returned to more traditional types of mortgages.

With less mortgage capital available, the demand for housing quickly began to erode. Nationally, home values fell by 32% between mid-2006 and the end of 2009. Some areas experienced even more dramatic declines over this time period: Las Vegas, 55%; Phoenix, 51%; and Miami, 47%. Likewise, the value of mortgage-backed securities plummeted, severely affecting many major financial concerns that held these securities as investment assets. The general economic decline that followed has proven to be the worst economic crisis since the Great Depression of the 1930s. As of late 2014, housing prices in many markets around the nation are recovering but have still not reached the record highs of the mid-2000s.

THE REAL ESTATE INDUSTRY: CAREER OPPORTUNITIES

The real estate industry is diverse, offering many career opportunities. To some students a career in real estate means selling homes, and, indeed, this is a significant part of the real estate brokerage industry. But many other fascinating careers in real estate exist, and one of the purposes of this book is to introduce these career opportunities, as well as to provide the basic knowledge needed to become a part of the real estate industry.

Real Estate Brokerage

In 2014, the largest real estate brokerage trade association, the National Association of REALTORS®, had over 1 million members, including brokers, salespersons, and other real estate professionals. The compensation earned by participants in the brokerage industry fluctuates with the ups and downs of the real estate market, but the U.S. Bureau of Labor Statistics estimated that in 2012 real estate brokers earned an annual average of \$82,380, and salespersons \$53,200.

Five principal classifications of real estate exist in the private marketplace: owner-occupied residential, renter-occupied residential, commercial, industrial, and farm and other open land. Because it is difficult to be an expert in all aspects of the real estate market, most brokers specialize in certain types of property. The extent of specialization depends on a number of factors, particularly the size of the local market. The real estate broker in a small city may deal in several or all types of properties. In larger cities, brokers may sell one type of real estate or properties located in only one part of a city. Quite commonly, some brokers and salespersons sell only owner-occupied houses, while others deal only in the sale or leasing of income-producing properties.

Property Management

Many people who invest in income-producing real estate, such as apartments and shopping centers, have neither the inclination nor the expertise to personally handle the properties' day-to-day operating activities, such as leasing, rent collection, building repairs, and building services. These tasks—and, indeed, the general objective of maximizing the value of a property—are delegated to the property manager. Some brokerage firms manage real estate as a supplementary activity, while many larger firms have a separate property management department. Still other property managers may be hired directly by the firm that owns the properties. If the property manager does a good job, this function can add considerable value to a property. It can also earn a good income for the property manager. The average annual wage for property managers in 2009 was \$52,610.

Real Estate Finance

Several characteristics of real property, principally the long-term nature of real estate investment and the consequent need for large amounts of money over a long period of time, make mortgage credit both necessary for most purchasers and attractive to many lenders. In turn, this has given rise to the real estate finance industry.

Real estate loans are made by many types of institutions and even by individuals, and major employment opportunities are found in savings associations, savings banks, commercial banks, mortgage banking firms, and life insurance companies. Savings associations and savings banks specialize in residential loans and do most of their lending locally. Commercial banks also lend money on real estate, particularly for relatively short-term construction loans, and they also purchase many mortgages for mortgage bankers.

The mortgage banking and mortgage brokerage industries also play large roles in the financing of real estate. Mortgage bankers do not collect deposits from savers and have only a small amount of their own capital to lend. After originating loans to borrowers, mortgage bankers sell the loans in the secondary mortgage market, but they often continue to service (collect payments, mail late notices, etc.) the loans for a fee. Mortgage brokers do not originate loans with their own funds but instead bring lenders and borrowers together in exchange for one-time fees. Both mortgage

bankers and brokers are essential parts of the financial mechanism that makes debt capital available to real estate owners.

Appraisal

Estimates of value are needed in almost every aspect of real estate and development. Sellers need to know what their potential purchases are worth in comparison with other properties in the market. Mortgage lenders need estimates of value, an **appraisal**, before they make lending decisions. Appraisals also are essential for tax assessors, insurance adjusters, and right-of-way agents. Accordingly, some appraisers are employed by financial institutions, other private firms, and government organizations, while many others work as *independent fee appraisers*—that is, they offer their services to the public for a fee. The average annual wage of appraisers was \$57,040 in 2012.

Consulting

Closely related to real estate appraisal is real estate consulting. The real estate appraiser makes estimates of value, while the real estate consultant advises individuals and firms regarding their real estate investments. Though the two specialties require similar kinds of knowledge, the consultant must have even more extensive knowledge than the appraiser of all phases of real estate, tax laws, and other aspects of investment.

Development and Construction

Real estate development certainly is one of the most fascinating aspects of real estate and one that offers greater potential return—and greater potential risk—than perhaps any other field within the industry. Real estate development involves the acquisition and subdivision of land, designing and planning the project, and the construction of improvements, such as roads, utilities, and buildings ranging from single-family homes to multi-million-dollar office building and shopping centers. Development is often described as the process of creating value by improving real estate for more productive use.

Corporate Asset Management

Although real estate makes up a large portion of corporate assets, most corporations have not placed adequate emphasis on managing these assets efficiently. Increasingly, however, firms are establishing corporate real estate departments, and this has led to many new opportunities in the real estate field. As might be expected, utilities and other firms with very large percentages of their assets in real estate have been leaders in the field, and other companies as well are realizing that efficient management of their real estate can add significantly to corporate profits.

Legal Experts

The legal complexity of real estate transactions and development projects often requires the expertise of attorneys and other legal professionals. Many attorneys specialize in real estate law and provide important services for real estate market participants such as title examination, contract drafting, and litigation. These attorneys often hire paralegals to assist them.

Land Planners

Land-use planning has grown in importance with the increase in both urbanization and concern for the environment. Planners are employed by local government planning agencies, regional planning districts, and state development offices.

CHAPTER REVIEW

- The five broad categories that comprise the real estate “body of knowledge” considered in this text include real estate market analysis, the legal framework of real estate, real estate services, the real estate transaction process, and investment analysis.
- Simply defined, *real estate* is land and things attached to it.
- The special economic characteristics of real estate are (1) fixed location, (2) uniqueness, (3) interdependence of land uses, (4) long life, (5) long-term commitments, (6) large transactions, and (7) long gestation period.
- The characteristic of real estate that distinguishes it from all other types of economic resources is its fixed location. Fixity of location means that every parcel of real estate is unique, and this factor can create large difference in property values.
- Land is indestructible, and real estate improvements generally have long lives. Thus, investment decisions are by their very nature long-term decisions.
- Because real estate purchases involve large expenditures committed for long periods of time, outside financing is essential for most transactions.
- The use of land depends greatly on (1) the provision of public services, (2) nearby land uses, and (3) the general economic vitality of the neighborhood and community.
- The *gestation period* for real estate improvements—that is, the time between conception of a real estate project and its actual completion and subsequent entry into the available supply—may be several years. This long gestation period makes the supply of real estate slow to respond to increases in demand.

- Five principal classifications of real estate exist in the private marketplace: (1) owner-occupied residential, (2) renter-occupied residential, (3) commercial, (4) industrial, and (5) farm and other open land.
- The general objective of the real estate property manager is to maximize the income flowing to the owners from income-producing property.
- Mortgage loans now total about \$14.1 trillion and have led to the development of a major sector of the real estate and finance industries. Major employment opportunities related to real estate are found in savings banks, commercial banks, mortgage banking and mortgage brokerage firms, and life insurance companies.
- Real estate appraisers estimate the value of real property. Their services are used by buyers and sellers, financial institutions, tax assessors, and many others.
- Real estate counselors advise individuals and firms about their real estate investments. They must have extensive knowledge of all aspects of real estate, tax law, and investment.
- Real estate development offers greater potential return and greater potential risk than perhaps any other field within the real estate industry.
- Land-use planners are engaged in physical design, economic and investment aspects of development, and land-use policies and regulations.
- Many real estate specialists are employed at various levels of government in property acquisition, tax administration, land-use planning, and other operations of government.

KEY TERMS

appraisal
gestation period
personal property

real estate
real property

SAMPLE

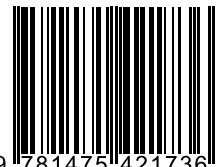
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www.dearborn.com, 800.972.2220

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ISBN-13: 978-1-4754-2173-6

ISBN-10: 1-4754-2173-7



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