

Demand and Real Estate

Changes in Demand happen fast and have the most significant impact in short term changes in value

Changes in Demand are caused by Changes in Income, Population, Jobs, Credit, Government policy, Lifestyle etc...

Forecasting changes in demand is complex yet key to creating opportunities in Real Estate

Forecasting Demand

Jobs = People = Demand

Real Estate Demand is based on peoples ability to participate

- Jobs: Where there are jobs available people will go
- The quality, consistency, and future expectations of local jobs, will be reflected in the local real estate values
- People: People cause more people
- Demand: More people cause increased demand

Economic Base Analysis

Economic Base Analysis uses the local job/employment market to understand the economic generators within that local market

Basic Employers/Employment: Business which creates a good or service which is sold outside the local market and brings dollars back into the local market e.g. Silicon Valley and the technology industry

Ancillary Employers/Employment: Businesses which serve the local market only e.g. 7/11 stores, realtors etc

Identifying Basic Employment

Two Methods to Identify Basic Employment:

- **Interview Method:** Develop list of Major Employers in Study Area, Interview key personnel, identify good and or service, estimate impact on the study area, and forecast potential change (very time consuming).
- **Location Quotient:** Compare Employment in the Study Area to Employment Nationally to identify industries which are over represented in the Study Area. e.g. The Technology industry in Santa Clara County compared to the National Technology Industry (%of workers in each area)

Location Quotient

Comparing Study Area Employment to National Employment

Data Necessary

- Total Employment in the Study Area
- Employment Information by “Industrial Code” in Study Area
- Total Employment in the Nation
- Employment Information by “Industrial Code” in Nation

Industrial Codes: SIC or NAICS

BE by Location Quotient

$$\text{LQ} = \frac{\text{Local \% Employment in Industry}}{\text{National \% Employment in Industry}}$$

$\text{LQ} > 1 = \text{Basic Industry}$

Economic Base Analysis Formula

Forecast Basic Employment (FBE)

X

EBm (TE/BE in Study Area)

X

P/Er (TP/TE in Study Area)

=

Forecast Total Population

Using LQ to Identify Basic Employees

$LQ > 1$ = a Basic Industry in Study Area

Once Industries are identified as Basic the analyst must then identify how many employees in the industry are “Basic”, Employees who exceed the National Average in the Study Area
i.e. $LQ > 1$

Identifying BE via LQ

Formula $\frac{LQ-1}{LQ} = \text{Basic Employees}$

e.g. LQ=2.0 $\frac{(2.0-1)}{2.0} = \frac{(1)}{2.0} = .5$ or
50%

are BE i.e. Industry (X) 20,000 x .5 =
10,000BE

Economic Base Analysis Formula

Forecast Basic Employment (FBE)

X

EBm (TE/BE in Study Area)

X

P/Er (TP/TE in Study Area)

=

Forecast Total Population

See Spreadsheet