Final Review

Rules

A) Nothing New

B) If yes then yes, if not then not

C) High Speed – You've been there done that. Open your RAM

Identifying Opportunities

The Entire Purpose of Studying Demand and Supply is to Identify Opportunities!

"When demand exceeds supply an opportunity exists"

Opportunities come from three sources in Real Estate

- Gaps
- Cycles
- Growth Patterns, changes and vectors

Identifying Gaps

Central Place Analysis— “Comparing study areas with the same economic profile”

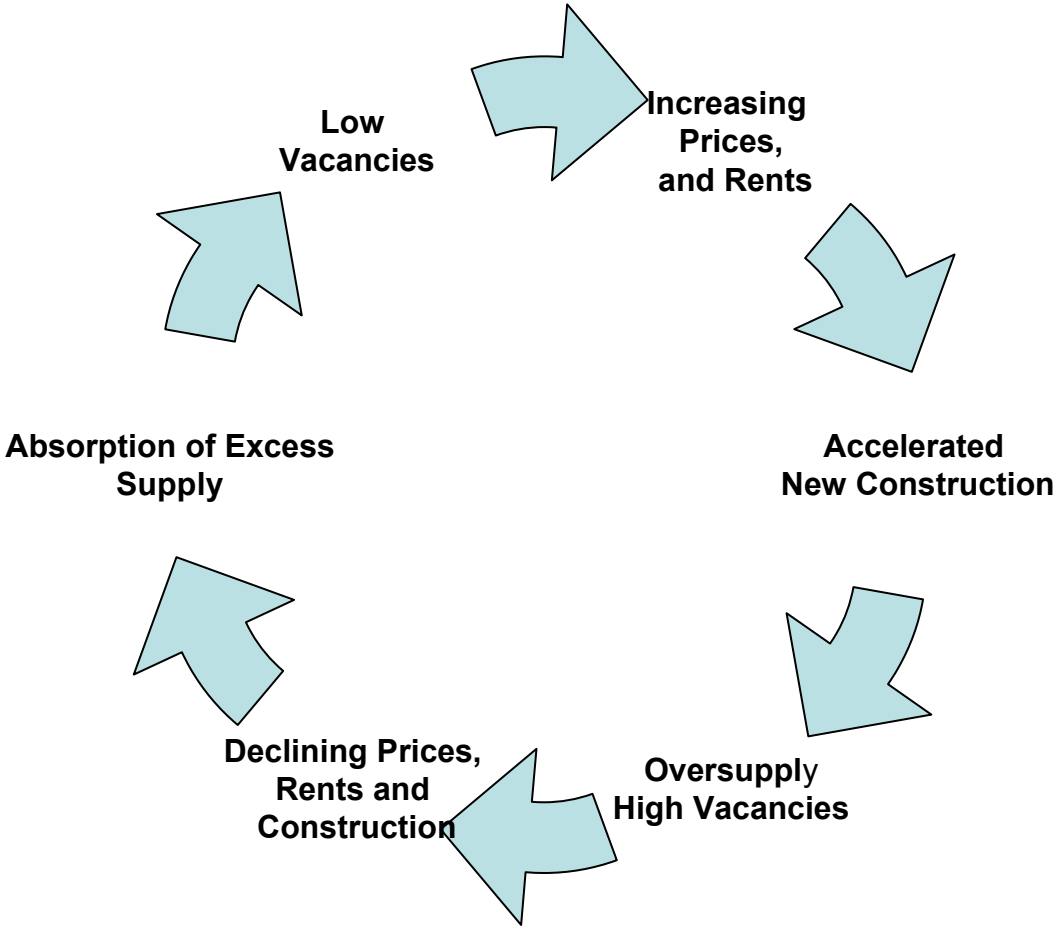
This study compares, by ratio, land uses in similar areas to identify opportunities (Gaps)

e.g. Restaurant sales per person

Basic Gap Formulas

	Demand Units	Supply Units
Industrial	Sq.Ft./Employee	Square Feet
Office	Sq.Ft./Employee	Square Feet
Retail	Sales/GLA	Gross Leasable Area
Residential	Households	Units

Cycles


Low
Vacancies
Increasing
Prices,
and Rents
Accelerated
New Construction
Oversupply
High Vacancies
Declining Prices,
Rents and
Construction
Absorption of Excess
Supply

Identifying Cycle Position

The key to Understanding the Cycle is identifying where the market is in the Cycle

1. Vacancy: What is the trend? Reducing vacancy is a strong market, Rising Vacancy is a softening market and low vacancy may mean the top of the market cycle
2. Prices and Rents: Trend?
3. New Construction: Trend?
4. Oversupply = High Vacancies
5. Oversupply and High Vacancy Lead to Declining Prices, Rents and Construction
6. Absorption: When the market is absorbing excess supply at a rate faster than supply is being added, the market Cycle is in recovery

Patterns of Growth

Transportation: How most towns in the world were originally founded was based on that towns ability to transport products and people. Waterway, then railways then roadways, and airways.

“The majority of the worlds population still live within 50 miles of a major shoreline”

Most towns have therefore grown up around a major transportation hub

Growth Vectors

Growth occurs generally in the following ways:

- Along Transportation Routes especially at Intersections
- In the area between major transportation routes
- In and Around established commercial activity hubs
- Areas within reasonable reach of employment centers
- Where the money is and there is available land

Locations and Sites

Location: An area delineated by:

A) Physical Boundary or Barrier

B) Service Area or Trade Area

C) Specific Community

D) National, Regional, State, County, City, Zip Code, Census Tract, Block, etc…

Site: A site is a specific property within a location

*A site has a particular location yet a location has many sites

Location Analysis

What you need to Know:

A) Geographical Factors
    1) Physical Elements
    2) The Patterns
    3) Linkages

B) Demographic and Economic factors

C) Comparative Criteria

Site Analysis

What you need to know:

A) Access
B) Size
C) Zoning
D) Building?
E) Tenants
F) Management
G) Economic Factors

Financial Feasibility

- Estimate Income
- Estimate Costs
- Analyze Yield

Perspective & Income/Expenses

- Location seeking a User
- User seeking a location
- Investor seeking an Investment
- Investment seeking an Investor

Real Estate Economics

Analyze Trends in economic factors affecting Real Estate

- Nationally
- Regionally
- Locally
- Neighborhood

Trends affecting Demand e.g.

- Population Trends +,-
- Income Trends +,-
- Tastes
- Availability and cost of Credit
- Advertising
- Etc…

Trends affecting Supply

- Price/Cost of Factors of Production
- Demand changes (water in a bottle, big cars vs small cars etc…)
- Future projections of need

- International Impacts (Imports and Exports)

Money Multiplier in Banking

"Required Reserve Ratio" is the key Lever

e.g. 20% Reserve = a Multiplier of 5

10% Reserve = a Multiplier of 10

4% Reserve = a Multiplier of 25

etc..

Tools of the Fed

1. Discount Rates
2. Open Market Operations
3. Required Reserve Ratio

Economic Characteristics of Real Estate

- Fixed Supply in the Short Term
- Immobile: Local Markets are key
- Long Economic Life
- Lack of a Standard Product

Opportunity: Quick price increase/decrease in prices and rents are caused by changes in Demand not Supply

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

Supply and Real Estate

- They are not making anymore Land!
- Increased Density is the only way to increase supply (NIMBY)
- How Long does it take to create a significant Real Estate development?

Supply of Real Estate is easily counted and Tracked

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 Formula

$$\frac{\text{Local Employment in Industrial Code}}{\text{Total Local Employment}} = \%\ \text{Employment in Industry Locally}$$

$$\frac{\text{National Employment in Industrial Code}}{\text{Total National Employment}} = \%\ \text{Employment in industry Nationally}$$

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

Identifying BE via LQ

Formula $\frac{LQ-1}{LQ}$ = % 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

Supply

Five Basic Property Types

Retail	**Total Square Feet in Study Area**
Office	**Total Square Feet in Study Area**
Industrial	**Total Square Feet in Study Area**
Residential	**Total number of Units**
Land	**Total Acres/Square Feet**

Forecasting Supply Formula

Total Existing Supply

+

Pipeline (Currently under construction + planned and permitted construction)

-

Drain (Property scheduled for demolishing)

=

Forecast Supply