



Semester 1: 2016

# INTRO TO PROPERTY

Ryan

Deakin University, Burwood



## **Table of Contents**

<b>WEEK 1: INTRODUCTION LECTURE</b>	<b>3</b>
<b>WEEK 2: FOUNDATIONS OF VALUE</b>	<b>4</b>
<b>WEEK 3: NEIGHBOURHOODS, SUB MARKETS, MARKETS</b>	<b>9</b>
<b>WEEK 4: PROPERTY VALUATION PROCESS AND DATA COLLECTION</b>	<b>12</b>
<b>WEEK 5: LAND AND SITE ANALYSIS</b>	<b>15</b>
<b>WEEK 6: IMPROVEMENT ANALYSIS</b>	<b>20</b>
<b>WEEK 7: HIGHEST AND BEST USE</b>	<b>22</b>
<b>WEEK 8: SALES COMPARISON METHOD OF VALUATION</b>	<b>24</b>
<b>WEEK 9: MARKET ANALYSIS</b>	<b>26</b>
<b>WEEK 10: THE COST APPROACH</b>	<b>27</b>
<b>WEEK 11: REVISION WEEK</b>	<b>29</b>

## Week 1: Introduction Lecture (non examinable)

### Report Writing (Good for assignments)

#### What is a report?

A written report is a document that presents focused, relevant information to a specific audience. Reports are often used to display the result of an experiment, investigate, or inquiry.

- Structure needs to be clear: contents page, e. summary, body, conclusion and recommendation

#### Purpose of a report

To investigate and analyse information; often to recommend action to solve a problem. This can be done using different sections (sub-headings), charts, graphs and dot points can also be effective.

#### The process of writing a report

- Determining the scope (what the report is about and not about)
- Produce an outline (section, headings and main points)
- Establish what research needs to be done
- Produce a time line for tasks to be done (time management)
- Draft and redraft
- Edit and proof read after report is done

#### Report Structure

Beginning	Middle	End
Title page Executive summary (summary of the whole report - purpose, findings, conclusions and recommendations, done at the end) Introduction (what your going to be doing, how your going to be doing it)	Findings Conclusions Recommendations (don't be shy to give a strong recommendation in this part)	Appendices References

## Week 2: Foundations of Value

### PART 1

#### What is Property?

##### Why study property?

- Property is essential to our lives and our existence
- We want to own it
- We live in it
- We invest in it/key part of wealth creation

##### Jobs in the property field

- Valuer
- Investment companies Finance sector (e.g. Mortgages)
- Facilities Management
- Real Estate sales and leasing
- Developers
- Lawyers, Quantity surveyors, Planners
- Sustainability consultants

#### Land

##### Uses of Land

- Agriculture
- Commerce (offices, hotels)
- Industry (warehouse, factory)
- Natural reserve
- Recreation (parks)

##### Attributes of land

- Unique in location and composition
- Physically immobile (cant move it)
- Durable
- Finite
- Useful

#### Real Estate, Real Property & Personal Property

### Real Estate

##### What is Real Estate?

Real Estate is the physical land and improvements on or to land - it is also immobile and tangible

Examples: Buildings, structures, trees.

##### Characteristics of Real Estate

- Immobile (Supply is finite)
- Durability (Indestructible)
- Heterogeneity (No one piece is identical)
- Indivisibility

## **Real Property**

### What is Real property?

The interests, benefits and rights inherent in the ownership of physical real estate. A right or interest in real estate can be referred to as an "estate." An estate describes the degree, nature, or extent of interest that a person has in real property.

An estate in land must allow possession, now or in the future and specify a duration. There are two types of estate:

- Freehold (buying: buy a house and live in it)
- Leasehold (leasing: gives you the right to occupy, not the extra rights that come with buying an estate)

### Estate in land & the bundle of sticks analogy

This is the rights that are bundled together, but can be separated out into categories:

- Use (build on, plant a garden, quite enjoyment)
- Sell (e.g. selling your home)
- Lease (consideration provided by a third party to use land/buildings)
- Enter (e.g. easements, crossovers, right of way)
- Give away (gift, bequeath)

## **Personal Property**

Personal Property - personal property is anything other than what isn't real property

Examples: clothing, jewellery, furniture etc

Trade Fixtures - personal property used to conduct business: restaurants fittings, gym equipment, industrial air compressor supply/pipe fittings

### **Influences on Land**

- Climate (environmental)
- Topography (environmental)
- Distribution of natural resources, population & industry (economic)  
example of CBD and how everything leads to that
- Trends in economics, population, technology & culture (social, economic, legal)

### **Disciplines concerned with property**

Law – Ownership & use of land

Finance – Value in exchange (market value and others)

Economics – Land, Labour, Capital, Entrepreneurial coordination (risk)

Sociology – land as a shared resource benefiting society (example: planning of cities so that everyone benefits)

Geography – physical elements of land & location

## Value

### Factors of Value

The following economic factors create value:

1. Utility - the benefits a prospective purchaser believes can be obtained by the purchase
2. Scarcity - supply must be relatively scarce
3. Desire - must satisfy human needs (shelter, safety) or wants (prestigious home with large pool)
4. Effective purchasing power - buyers ability to acquire goods with cash or its equivalent

### How do we define value?

- Market value - focusing more on this
- In-use value
- Investment value
- Business value
- Fair value
- Liquidation value

## Price, Cost and Value

Price: The dollar amount of a willing seller/able buyer will seek/pay for a property in the open market

Cost: the amount of money required to produce - production value

Value: Must be specific since there are many kinds of value (focusing on Market and Investment Value)

*Example: Apartment building*

Cost - \$3,000 x 125 sqm = \$375,000

Price - \$600,000

Value (Market Value) - \$636,000

**\*\*\*Market Value** - the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsions

**\*\*Investment Value** - a property is not always worth its market value to every investor. Value of a property to a particular investor based on their investment requirements.

## PART 2

### What is value of property?

- Perceived as the anticipation of benefits to be obtained in the future
- The relationship that creates property values is (very) complex, and values change when the factors that influence value change

### Four agents (ingredients) of production

The production of goods, services and income depends on the combined effects of four economic ingredients - the four agents of production:

- Land
- Labour
- Capital
- Entrepreneurial co-ordination (e.g. developers)

### Anticipation

Value is a function of the anticipated benefits to be derived from ownership or future usage or income flow.

- Residential – pleasures of ownership and occupancy
- Investment property – anticipated rental income & capital gains

### Supply and Demand

#### Factors affecting Demand on property

- Demographics
- Consumer preference
- Economic aspects
- Finance market performance (interest rates, credit standards, etc)
- The economy
- Legal and political aspects
- Expectation of capital gains
- Expectation of future house prices.
- Liveability

#### Factors affecting Supply on property

- Cost of inputs such as land, labour, construction materials
- Government regulatory factors
- Availability of funds (bank lending laws)
- Developer profit expectations

### Competition

- Buyers and sellers of a property operate in a competitive market setting
- Competitive market tends to reduce unusually high profits
- In the case of too much competition, it can be detrimental.

### Balance

The greatest value in property will occur when the components of the property (e.g. bed rooms, bathrooms, garages) are proportional to each other.

### Contribution

The value of component of a property depends on the amount it contributes to the market value of the whole property, as opposed to the actual cost of the component.

*Example:* How much value does a swimming pool add to a property? Vary to different buyers. However you might spent that 50k on landscaping and improve the look at the overall house, which would add value when coming to sell.

### Balance in land use

Proper and optimal balance of land uses (zoning and planning) within an area would maximize property values.

### Increasing and decreasing returns

Increases in the features / characteristics will produce increased returns, up to a certain point only.

*Example:* Any additional expenditure will not produce a return appropriate to the additional investment - Putting in an extra room (50k), apposed to putting on an extra 3 rooms (50k x3).

### Progression vs Regression

*Progression:* The worth of an inferior property is increased by its proximity to better properties of the same use class.

*Regression:* A house that has been meticulously maintained in a neighbourhood of homes that have not been kept up will suffer from the unfavourable impression created.