

Semester 1: 2017

# PROPERTY ECONOMICS

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## Week 1: Introduction to Property Economics

### What is Economics?

Economics is a branch of social science - a study of peoples behaviour specifically how they make decisions. The study of what causes the economy to change:

- Production
- Consumption
- Supply
- Demand

Opportunity Costs: these exist as soon as we have the "choice" of something that is to go out with friends or to study Property Economics - that is what you give up in order to do something else.

### Economic Systems

- Traditional Economy
- Market economy or Capitalism
- Command Economy - socialism or communism
- Good/bad features

### Basic Principles of Capitalism

- Private property: Property Rights
- Private enterprise: resources owned by citizens
- Competitive Markets: Demand and Supply
- Profit Motive: encourages risk taking
- Laissez-faire (hands off): minimal government interference

### How Capitalism Answers the Q's

- WHAT: business's try to satisfy demand and make profits
- HOW: lowest cost method of production
- FOR WHOM: to those who can pay

### Macro vs Micro

| Macroeconomics                             | Microeconomics  |
|--|---|
| International, National, regional or state | Individual units within the economy - businesses, households, companies |

## Real Estate (Property) Economics

### What is Real Estate?

- Land and building
- Affixed to the Land
- Non-Real Estate = Personal Property

Ownership of Real Estate gives rights:

- Rights to use
- Rights to possess
- Rights to exclude
- Right to dispose of the property

### Why Study Real Estate Economics?

- To help understand what causes fluctuations in real estate value, use and activity
- Real estate decisions made today will be reflected in real estate values in cities and neighbourhoods of tomorrow

### Why is Real Estate Economics so interesting?

- Everything we do involves economics e.g. price of petrol
- Everything we do involves real estate e.g. where we live, work & play
- Newspaper headlines always involve real estate economics e.g. mortgage problems, affordability, interest rates, property values

## Demand

### Factors of Value (Demand)

- Utility (Satisfaction)
- Scarcity
- Desire
- Effective purchasing power

### Demand Curve for Houses



\*\*A change in price will cause a change in demand (Higher price, the demand falls)

### Changes in Demand

The following cause the demand curve to shift (increase/decrease):

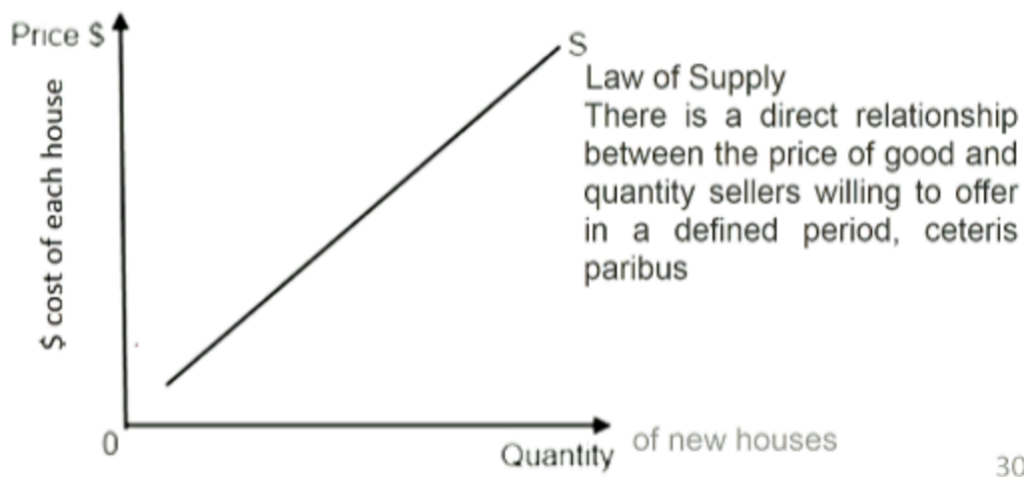
- Population
- Income
- Availability of Credit
- Personal Lifestyle
- Change in tastes & substitute products
- Government actions
- Advertising

### Supply

#### Factors of Production (Supply)

- Land
- Labour
- Capital
- Entrepreneurial coordination - Business Owners Skills

### Supply Curve for Houses



\*\*Direct relationship - price and quantity supplied go hand in hand. When producers are paid more, the quantity of houses will increase.

### Changes in Supply

The following cause the supply curve to shift:

- Changes in the costs of ANY of the factors of production
- A change in demand for one product can cause changes in supply of another product (e.g. greater demand for apartments, rather than houses)
- Anticipation of changes in future prices, inflation, profits can change amount of good supplied
- Cost of construction
- Technology change
- Government actions

## Refresher

### The Perfect Market

- Numerous buyers and sellers
- All parties are knowledgeable
- All products are similar and interchangeable
- No barriers to entry or exit
- Products are similar and interchangeable
- Government plays no role in pricing

### Real Estate Markets

Relatively few buyers and sellers:

- For any type, price range and location of real property
- Sellers control during a seller's market
- Buyers control during a buyer's market

Generally buyers nor sellers are very knowledgeable about the product. Real property is Heterogeneous (unique) - no one piece of land is similar, all are different as the location is fixed and it can't be transported.

### Exam style questions

## If you were asked.....

- What will happen to industrial land values if Port of Melbourne was converted to a commercial centre?
- If the government prevented any more office development in the Docklands and other inner city locations?
- What would happen to Melbourne's property market if there was another financial crisis?
- What impact on the housing market would a interest rate rise of 5%?
- Or the FHOG was increased to \$50,000?
- OR Changes in tax laws – allowing better tax deductions for property investors?

