



REAL ESTATE
PERSPECTIVES

AN INTRODUCTION TO REAL ESTATE

Fourth Edition

CORGEL | LING | SMITH

REAL ESTATE PERSPECTIVES



An Introduction to Real Estate

FOURTH EDITION

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To our families for their patience and understanding during the preparation of this book

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P R E F A C E



REAL ESTATE DECISION MAKING

Real estate is a fascinating field of study and an important component of a nation's income and wealth. It is also a complex field. The ability to make informed decisions regarding the construction, acquisition, use, and disposition of real estate usually requires the application of sophisticated analytical tools. Decisions based on back-of-the-envelope calculations are not adequate for estimating the risk and return of real estate investments and portfolios in increasingly sophisticated real estate markets.

This book is written for those seeking a clear presentation of the numerous investment decisions involved in real estate, such as whether and how to lease, buy, sell, or mortgage a property; how to analyze and predict the forces in the market that determine real estate values; whether and when to renovate, rehabilitate, or demolish a building; and when and how to divest (sell, trade, or abandon) a property. Our objective is to provide a decision-making framework that offers students an intuitive understanding of the material and, thus, the ability to analyze a broad range of real estate problems and decisions. The fourth edition of *Real Estate Perspectives* stands at the forefront of the trend toward greater use of information technology and quantitative decision-making tools.

As the title suggests, the text is organized according to five perspectives: Investment, Market, Valuation, Mortgage Finance, and Legal. These perspectives are the predominant viewpoints real estate professionals consider when analyzing and implementing important decisions. An overview of each perspective is provided in Chapter 1.

VALUE: THE UNIFYING THEME

Whether a person enters the business of real estate in a direct way (e.g., development, ownership, and investment management), becomes involved in real estate service businesses (e.g., brokerage, property management, appraisal), or simply owns a home, he or she must make decisions continually about committing funds to real estate. The process followed and methods implemented for reaching these investment decisions through the process of determining their value represents the unifying theme of *Real Estate Perspectives*. Thus, we position the Investment Perspective in the front of the

book. Our view is that students best understand and appreciate the importance of the complex economic, social, and legal processes that affect real estate markets after they have developed an understanding of how real estate investment decisions are made.

The basic concepts developed in the Investment Perspective are used throughout the remainder of the book. This allows for an integrated framework for the study of real estate because all other concepts and principles of real estate analysis can be built around the investment decision—other factors such as legal considerations, financing requirements and alternatives, and local market conditions are considered primarily in the context of how they affect the value and the rate of return on real estate. For example, real estate students and investors study growth management law and local land use regulations because they know that these rules and regulations may affect the future income-producing ability, and therefore the value, of a property. Also, the “imperfections” in real estate markets—such as the lack of adequate data, the large economic size of parcels, and the immobility of land and structures—are important primarily because of their potential effect on property rents and values.

ORGANIZATION

The five parts of this book may be treated as distinct modules. Although we recommend that the Investment Perspective be covered first, the order in which the material is covered may be determined by the instructor. For example, some instructors will prefer to begin with the Legal Perspective before moving to the material on investment, markets, valuation, and mortgage finance. This modularity offers the instructor a great deal of flexibility. Moreover, not only can the five Perspectives be arranged to suit the needs of the course, but the chapters within each Perspective can be reordered to achieve maximum educational efficiency, after the first chapter in the Perspective is covered.

INTENDED AUDIENCE

This text is designed and developed explicitly for a first undergraduate course in real estate, often titled Principles of Real Estate. This course usually is taught in a business school. The text is suitable for an introductory course in graduate real estate programs as well. The typical student will not have previously taken a course in real estate or finance, and no previous knowledge of either is assumed. Because these courses either may be part of a sequence or elective, the text is intended for majors and nonmajors alike. In terms of background or prerequisites, the book is nearly self-contained. Some familiarity with basic economics and business principles is helpful, but even these are reviewed in each part. As a result, students with different backgrounds will find the text accessible.

PEDAGOGICAL FEATURES

- **Learning Objectives.** Each chapter begins with a set of specific learning objectives. These objectives closely align with the main ideas of the

chapter. Questions at the end of the chapter support these learning objectives, reinforcing student learning of key chapter concepts.

- **Real-World Emphasis and Real Estate Focus Boxes.** A real-world focus is integrated throughout the text. This real-world flavor is reinforced by Real Estate Focus boxes found throughout the book. Every chapter contains one or more specific interest features that appear in a boxed format near a related concept or institutional detail in the text. Some of these Real Estate Focus boxes discuss specific property deals, others contain memorable quotes about real estate from famous people, and others tell distinctive stories.
- **Calculator Keystrokes.** The modern financial calculator serves as a handheld, preprogrammed computer. Many of the standard financial calculations needed to analyze real estate situations can be performed with these calculators. We present the keystrokes needed for solving these problems with financial calculators throughout the text to assist students in acquiring financial analysis skills.
- **EXCEL Tutorial.** Real estate analyses of a highly specific or advanced nature are often difficult to perform with financial calculators. Solutions to these problems may be found by spreadsheet programming. Many of these problems and their solutions are beyond the scope of this book; however, we provide specific references to Microsoft EXCEL applications and include a tutorial for using EXCEL in the appendix to Chapter 2 to assist students in getting started.

END-OF-CHAPTER FEATURES

- **Summary.** Every chapter ends with a concise, but thorough, summary of the important ideas—helping students review the key points and providing closure to the chapter.
- **Key Terms with Page References and Glossary.** At the end of each chapter, we present a list of key terms that students should know as part of their real estate education. Convenient page references enable students to easily look up any terms during chapter review. Also, the end-of-text Glossary includes the definitions for each key term, providing a handy resource for student mastery of key concepts.
- **Test Yourself Questions.** This end-of-chapter section includes a set of useful multiple choice questions (approximately 10 per chapter), with answers included in Appendix A. Test Yourself enables students to test themselves on the chapter content and receive instant feedback regarding their understanding of the material.
- **Problems for Thought and Solution.** The end-of-chapter material also includes several (approximately five) discussion-style and numerical questions entitled Problems for Thought and Solution. These questions are designed to be thought provoking and therefore provide excellent opportunities for class representation and discussion.
- **Internet Exercises.** We introduce problems at the end of selected chapters that require Internet searches to perform the problem analysis. The use of this modern information technology is encouraged and necessary to compete in the modern real estate world.

- **Case Problems.** In an effort to teach key concepts in the context of realistic situations, we include case problems (usually two per chapter). As with the Problems for Thought and Solution, these case problems offer instructors and students valuable opportunities to build upon key real estate concepts through class discussion.
- **Additional Readings.** Because students and instructors frequently require sources for additional information about chapter topics, we present an annotated list of books, journal articles, and periodicals for further reference.

INSTRUCTOR SUPPORT

Prepared by Professor Dean Gatzlaff of Florida State University, the supplementary materials are a well-thought-out and fully integrated package for instructors.

- **Instructor's Manual/Test Bank.** Each chapter includes a list of Teaching Objectives, detailed Lecture Notes, and suggested solutions to end-of-chapter Problems for Thought and Solution, Internet Exercises, and Case Problems. The Test Bank offers multiple choice and true-false questions for each chapter.
- **Microsoft PowerPoint Presentation System.** A series of 10 to 20 slides has been produced for each chapter, providing an overview of the fundamental material for class presentation. The slides have been developed to follow both the text and the detailed lecture notes provided in the Instructor's Manual. They can be revised or added to by the instructor.

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Additionally, Dr. Smith has authored or coauthored numerous books and articles in professional and academic journals, and has served on the editorial boards of several academic and professional journals. From 1992 to 1998 he was Editor-in-Chief of *Real Estate Issues*. He was a founding member of the American Real Estate and Urban Economics Association (AREUEA) and served as its president in 1970; he is also a Fellow of the American Real Estate Society (ARES). In 1985 he was the first recipient of the George Bloom award of AREUEA, and in 1998 was the recipient of the Pioneer award of ARES. In 1990 he received the Reinman award of the Appraisal Institute, and in 1999 the Lum award of the Counselors of Real Estate. He is an honorary member of the Associazione Italiana Consulenti Immobiliari (Italian Association of Real Estate Counselors).

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