



# MODERN REAL ESTATE

FOURTH EDITION

CHARLES H. WURTZEBACH
THE PRUDENTIAL REALTY GROUP

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AT CHAPEL HILL



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PREFACE

The past two decades have been marked by a significant increase in the recognition given real estate both as a major investment vehicle and as a vital productive factor in our economy. This recognition has led to the acceptance of real estate as a field of study requiring both academic preparation, as evidenced by growth in college and university real estate programs, and practical experience. New educational programs sponsored by various professional real estate associations attest to the vigor with which the industry is promoting formal training both before and during a professional career.

This book is for individuals taking the Principles of Real Estate course at the college or university level. It also provides useful background reading for those entering careers in real estate and related industries without the benefit of formal real estate education. Additionally, individuals entering real estate-related careers, such as architecture, who lack a business background, will find *Modern Real Estate* a valuable source of information in a broad range of real estate areas.

As a classroom text, the book assumes some previous or concurrent exposure to the standard "core" business courses. Drawing on the student's general business background, the book examines the unique features of real estate with a focus on action and decision making. The book concentrates on the "why" of decisions and the interrelationship among the key decision makers in the industry.

As the real estate business becomes more sophisticated, the real estate professional must make greater efforts to understand the essential workings of all aspects of the industry in order to make correct decisions in his or her specialized area. For example, the better sales associate is the one who knows real estate financing, law, and construction fundamentals as well as the fine details of real estate marketing. *Modern Real Estate* describes the workings and theoretical underpinnings of the major

fields within the real estate industry and clarifies the linkages and relationships of the different fields. In doing this, the book offers a survey of the real estate industry that molds an academic perception with guides for practical decision making. With this overview, the student may proceed in future study to develop expertise in any of the many specialty areas that make up the real estate industry.

Part 1 acquaints the student with the spatial element and the inter-disciplinary nature of the real estate industry. The place of real property in the American economic system is traced. The theme or unifying concept of the book is portrayed as the "real estate game." The reader learns the definition of a "winner" and is introduced to the players and their respective roles in the real estate marketplace. With this macroeconomic introduction as a basis, certain theories from regional and urban economics are analyzed to clarify the spatial element in real estate decisions. Consideration of the physical side of constructed space and our interaction with the spacial environment complete the analytical framework.

Part 2 introduces the student to the basic concepts of the American legal system and the essentials of real estate law that make up the formal rules of the real estate game. The legal concepts with which the real estate decision maker deals are explained.

Part 3 is a straightforward presentation of real estate appraisal with an emphasis on what produces *value*. The practical dimension of regional and urban economics is shown in the appraisal process, which itself is a link to the investment section.

Part 4 begins by briefly discussing the basics of marketing in general, and then moves to the unique aspects of real estate marketing. Brokerage is covered in Chapter 10, with the process of marketing the single-family home distinguished from the marketing and leasing of income properties. Appendix 10A gives the details of a real estate closing, and appendix 10B contains the Realtor Code of Ethics. The increasingly important field of asset management is the subject of Chapters 11 and 12. First the basics of property management are covered, then the additional considerations of institutional and corporate owners.

Part 5 first reviews the U.S. financial system and identifies the lending institutions that finance real estate. Financing mechanics from the borrower's perspective are covered first; then lender underwriting criteria and loan analysis are presented. The more complex operations of the secondary mortgage market are covered in Chapter 16.

Part 6 on taxation begins with a brief summary of income and property taxation and emphasizes real estate's unique position. The reader is then introduced to the major provisions of the Internal Revenue code specifically affecting real estate. This edition includes the significant tax law changes called for in the 1986 Tax Reform Act as well as the necessary historical perspective to fully appreciate the tax environment entering the 1990's. (Should any of the more significant currently proposed

tax law changes be enacted, Wiley will provide a short paperback update.)

Part 7 on investment brings together the previous material in a real estate investment model. The unique features of real estate are highlighted, this time in a risk-return framework. Chapter 20 reviews the principles of investment analysis. Chapter 21 develops the discounted cash-flow model that is an extension of our original definition of winning the real estate game. Chapter 22 covers the more advanced material involving real estate decision making in a "portfolio" framework. Finally, Chapter 23 examines the various ways in which the "bundle of rights" is packaged to suit different investors. This chapter deals with the emergence of real estate investment managers in the context of the theory developed in Chapters 20–22.

Part 8's topic is the asset creation side of the real estate industry: real estate development. The description of the development process, in Chapters 24 and 25, integrates material from previous parts on law, appraisal, marketing, finance, and investment. Chapter 26 presents a methodology for market and economic feasibility analysis, completing the presentation of the dynamic side of the real estate investment model.

Part 9 deals with public policy. In Chapter 27 we examine the very extensive role of government in real estate. In Chapter 28 we look at the long-term trends in the industry that have motivated, and have been motivated by, government's role. Chapter 29 covers several topics that we expect will be increasingly important in the years to come. In this way, our introduction to the real estate industry concludes with an "eye to the future," which is an essential part of good decision making.

Compound interest tables, a glossary, and an index provide comprehensive aids in understanding and using the concepts introduced in this book. Suggested readings and references are given at the end of each Part.

In total, the book gives sufficient depth and breadth to allow the reader to claim a general understanding of "the industry." If the reader plans detailed subsequent study in a particular area or if time is limited, certain chapters may be omitted with no loss of continuity. The more advanced chapters are Chapter 12, Asset Management: The Institutional and Corporate Perspective; Chapter 16, The Secondary Mortgage Markets; Chapter 19, Tax Credits, Installment Sales, Like-Kind Exchanges, and Other Considerations; Chapter 22, Real Estate and Modern Portfolio Theory; Chapter 23, Institutional Real Estate Investment; Chapter 26, Land Use Feasibility Analysis; Chapter 28, Long-Term Trends in Urban Structure and Land Use; and Chapter 29, New Ways to Play the Real Estate Game. If these chapters are left as "suggested future reading," the book will help any beginning student. Including all these chapters in a one-semester course constitutes a highly rigorous introduction to real estate.

We are happy to note that both men and women are active and successful in the real estate profession. It is gratifying to observe that women are entering the field in increasing numbers and assuming major decision-making roles. However, if every sentence in this book used "he or she," "him or her," and "his or hers" when referring to the real estate profession, the book would become difficult to read. Therefore, for ease of expression, "he," "his," and "him" are used in some places and "she," "hers," and "her" in others, and these refer to both female and male real estate professionals.

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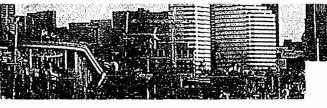
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