The Perfect Market

➢ Perfect Product Knowledge: Participants know everything everyone else knows about the product being sold

➢ Numerous Buyers and Sellers: Active market with no monopolistic characteristics

➢ Homogenous Products: All products are the same

➢ Cash Sales: All sales are of a size and frequency where a number of players can purchase without debt

➢ Easy Market Entry: Many buyers and sellers

Real Estate in The Perfect Market

➢ Product Knowledge: Information regarding individual properties must be obtained by individual investigation
➢ Numerous Buyers and Sellers: Each property has only one sale side and one buyer side
➢ Homogenous Products: Each piece of Real Estate is different from any other
➢ Cash Sales: Prices of Real estate are generally too high to have many cash buyers
➢ Easy Market Entry: Real Estate transactions are complicated and time consuming requiring time and money to purchase or sell

Real Estate does not Operate in a Perfect Market
(Here lies a place of opportunity to the aware)

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

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

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

Forecasting Demand

Jobs = People = Demand

Real Estate Demand is based on peoples ability to participate

➢ Jobs: Where there are jobs available people will go

➢ The quality, consistency, and future expectations of local jobs, will be reflected in the local real estate values

➢ People: People cause more people

➢ Demand: More people cause increased demand

Economic Base Analysis

Economic Base Analysis uses the local job/employment market to understand the economic generators within that local market

Basic Employers/Employment: Business which creates a good or service which is sold outside the local market and brings dollars back into the local market e.g. Silicon Valley and the technology industry

Ancillary Employers/Employment: Businesses which serve the local market only e.g. 7/11 stores, realtors etc

Economic Base Multiplier

Economic Base Multiplier compares "Basic Employment (BE)" to "Total Employment (TE)" within the study area to create a "Multiplier" to use in forecasting : TE/BE=EBm

Steps required to complete an Economic Base Study
1.   Select study area: City, County, MSA, DMA etc..
2.   List and Group Employment
3.   Separate Basic Employers from Ancillary Employers
4.   Analyze Basic Employers for changes
5.   Forecast change in Basic Employment
6.   Use Multiplier to forecast change in total employment

The Multiplier Effect

Jobs = People = Demand

Changes in Basic Employment will cause changes in population, income, and ability to demand

The EBm is the lever for forecasting changes in total population. Every basic job creates other ancillary jobs which must be filled by someone who comes with someone else (husband, wife, child, in-law, etc...)

Population/Employment: Comparing "Total Population (TP)" to "Total Employment (TE)" in your study area will give the analyst another tool "Population/Employment (PE)" Ratio