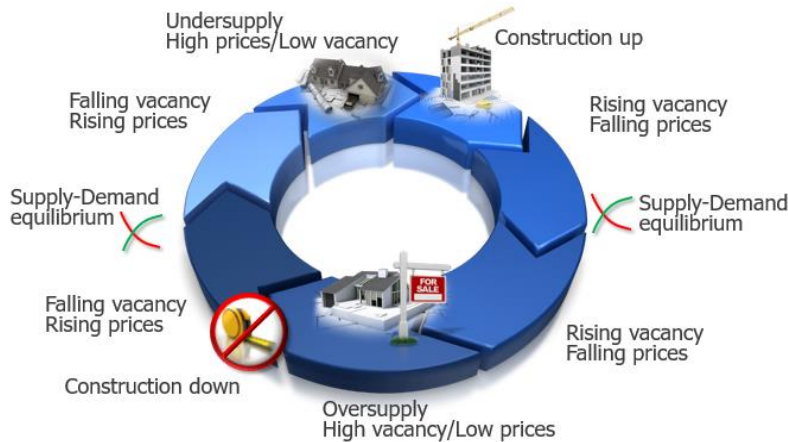


SLIDE 13 - Market Indicators (Cover Page)

SLIDE 14

**Real Estate Supply-Demand Cycle**



As the exhibit illustrates, prices, construction, and vacancy move up and down in the cycle. Construction represents the addition of new supply. Vacancy is the amount of total real estate inventory of a certain type that is unoccupied at a given time. Absorption is the amount of available property that becomes occupied over a period of time.

Taking the point of undersupply, or high demand, as a starting point in the cycle, vacancy is low and prices are high. This situation stimulates suppliers to construct additional housing or commercial space. New construction, by adding supply, causes vacancy to rise and prices to fall until supply-demand equilibrium results. As more new space is added, supply begins to outstrip demand, vacancy continues to rise, and prices continue to fall. At the bottom of the cycle, prices and vacancy are at unacceptable levels, and construction ceases. The market "dies" until excess supply can be absorbed. The absorption process continues through the equilibrium point until price and vacancy conditions are sufficiently attractive to encourage renewed construction. Then the cycle repeats.

## SLIDE 15

### **Market Influences on Supply and Demand**

*Numerous factors in a market influence the real estate cycle to speed up or slow down. These influences can be local or national, and from the public or private economic sector.*

**Local market influences.** Since the real estate market is local by definition, local factors weigh heavily in local real estate market conditions. Among these are:

- Cost of financing
- Availability of developable land
- Construction costs
- Capacity of the municipality's infrastructure to handle growth
- Governmental regulation and police powers
- Changes in the economic base
- In- and out-migrations of major employers

## SLIDE 16

**National trends.** Regional and national economic forces influence the local real estate market in the form of:

- Changes in money supply
- Inflation
- National economic cycles

In recent years international economic trends have increasingly influenced local real estate markets, particularly in border states, large metropolitan areas, and in markets where the economic base is tied to foreign trade. In these instances, currency fluctuations have significant impact on the local economy.

## SLIDE 17

**Governmental influences.** Governments at every level exert significant influence over local real estate markets. The primary forms of government influence are:

- Local zoning power
- Local control and permitting of new development
- Local taxing power
- Federal influence on interest rates
- Environmental legislation and regulations

*A good example of government influence over the local real estate market is a city government's power to declare a moratorium on new construction, regardless of demand. Such officially declared stoppages may occur because of water or power shortages, insufficiency of thoroughfares, or incompatibility with the master plan.*

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### Summary

#### SUMMARY

##### The Market System

Supply and demand	Supply: goods or services available for sale, lease, or trade Demand: goods or services desired for purchase, lease, or trade
Price and value	Price mechanism: quantified value of an exchange Value components: desire; utility; scarcity; purchasing power
Productivity and costs	Cost plus profit equals minimum price; production cost possible component of value

Section 15: Real Estate Markets and Analysis



Slide 19

### Summary

#### SUMMARY

Market interaction	Market: transaction arena where suppliers and demanders define value through the price mechanism If supply increases relative to demand, price decreases; if demand increases relative to supply, price increases
Market equilibrium	supply and demand tend toward balance where they are equal Market equilibrium: price, cost, value theoretically the same; market imbalances are caused by changes in supply or demand

Section 15: Real Estate Markets and Analysis



Slide 20

### Summary

#### SUMMARY

##### Real Estate Market Dynamics

Economic characteristics of real estate	Governed by supply, demand, price, costs, value components, government influence Inherent value; unique appeal; immovable supply; illiquid; slow response to cycles; decentralized market
Real estate supply and demand	supply: property available for sale or lease; measured in dwelling units, square feet, acres; influenced by costs, finance, returns, government regulation

Section 15: Real Estate Markets and Analysis



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**Summary**

SUMMARY	
Real estate supply and demand	<p>Demand: property buyers and tenants wish to acquire; measured in households, square feet, acres; influences: residential-- quality, amenities, price convenience; retail--trade area, sales, competition, site access, visibility; growth patterns; office--efficiency, costs, functionality; industrial-- functionality, labor, regulatory compliance, access to labor, supplies, distribution channels</p> <p>Base employment, total employment, population determine overall demand</p> <p>If employment and population increase, demand and prices increase; if they decrease, the opposite occurs</p>



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**Summary**

SUMMARY	
Real estate supply and demand	<p>Unoccupied supply; absorption is the "filling up" of vacancy</p> <p>Real estate supply-demand cycle: Undersupply &gt; accelerated construction adds supply &gt; equilibrium &gt; construction adds more supply &gt; oversupply &gt; construction stops &gt; equilibrium &gt; demand absorbs supply</p>
Market influences on supply and demand	<p>local economic factors; national economic trends in money supply, inflation;government regulation at all levels</p>

