REAL ESTATE ECONOMICS
FIFTH EDITION

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Because this book is easily broken down into modular parts, professors often use this *Real Estate Economics* textbook (or parts thereof) for their Real Estate Investment and related courses such as:

- Essentials of Real Estate Investments
- Investment Analysis for Real Estate Decisions
- Sound Real Estate Economics and Investments
- Real Estate Investor Analysis
- ABC of Real Estate Investments
- From Basic to Advance Investment Opportunities
- Urban Economics
- Commercial Real Estate Investment Opportunities
- Residential Real Estate Investment Opportunities
- Real Estate Economic and Investment Trends

**Dedicated to Our Contributing Editor, Appraisal Expert Jack C. Flynn**

Real estate economics is a term used to describe the application of economic principals in an effort to predict patterns in real estate prices and consumption. An even more refined application of real estate economics is that of *Real Estate Investing* which primarily focuses specifically on smaller residential properties (flipping houses or small apartments). The element of economic real estate principals that is most easily identified is that of predicting the patterns of prices, and supply and demand. Using the sound economic principals Jack Flynn has helped us explain in this book, you or your investment clients will gain the expertise necessary to make numerous sound (lucrative) long- or short-term real estate investments.

Jack Flynn, Past President, State Director, San Marino-South Pasadena Board of REALTORS® and Past President of the L.A. Chapter, State Director of the National Association of Independent Fee Appraisers is currently a Certified General Real Estate Appraiser for the State of California. He is also a Life Member of the Appraisal Institute and Senior Member of the American Society of Appraisers. He is a qualified expert witness in superior and Federal courts, including Federal Bankruptcy court covering a broad range of properties and has supervised as well as managed real estate appraisal operations for private trusts, banks and savings associations throughout the Western part of the country.

In addition to specializing in traditional residential, commercial, and industrial market appraisals, Mr. Flynn’s company has expanded its services to include probate, trust, property tax appeals, division-of-interest, income/estate planning and real estate consulting. You could not find a more qualified instructor and contributor to a real estate economics textbook that doubles as an investment guide.

With my professional and personal gratitude,
Professor Walt Huber
The Case-Shiller Index

The authors consider Case-Shiller Index the most appropriate index to use for real estate. Their index graphs show year-over-year changes in home prices.

An INDEX NUMBER is an economic data figure reflecting price or quantity compared with a standard or base value. The base usually equals 100 and the index number is usually expressed as 100 times the ratio to the base value. For example, if a commodity, like an average house, costs twice as much in 2020 as it did in 2010, its index number would be 200 relative to 2010.

The best-known index number is the CONSUMER PRICE INDEX, which measures changes in retail prices paid by consumers. In addition, a COST-OF-LIVING INDEX (COLI) is a price index number that measures relative cost of living over time. However, in real estate it is customary to use the CASE-SHILLER INDEX, which is a group of indexes that tracks changes in home prices throughout the United States. The indexes are based on a constant level of data on properties that have undergone at least two arm’s length transactions. Case-Shiller produces indexes representing certain metropolitan statistical areas (MSA) as well as a national index.

Robert James “Bob” Shiller is ranked among the 100 most influential economists of the world, having received the 2013 Nobel Memorial Prize in Economic Sciences in 2013 for empirical analysis of asset prices.

Remember: Case-Shiller has a 10 and 20 city composite as well as a national index, all shown in the graph above.
The Case-Shiller Chart indicates that housing started to take off in 1992. It hit its all-time high in 2006, and then started plummeting 38% when the housing bubble burst to reach an all-time low in 2009 (the end of the Great Recession). It has been recovering, with some exceptions since 2010.

The Case-Shiller index is most accurate for real estate because it compares repeat sales of the same homes. They also do not use sales that aren’t “arm’s length” in other words parents selling houses to their children, as that would distort the numbers.

Recently, the combination of low interest rates and strong consumer confidence based on solid job growth, cheap oil and low inflation supported increases in home prices. However, nothing remains constant in real estate, change may always be just around the corner. All real estate economics are local.
“The Party’s Over”

Once considered a nation of homeowners, we’re fast headed toward becoming a “nation of renters.” Stricter loan qualifications lead to tighter credit, fewer jobs, higher down payments, and fewer home purchases. A large number of people, who can’t afford to buy, will become renters.

China’s economy (#2 in GDP) is predicted to surpass the U.S. by 2025. We’ve become less competitive by not encouraging our business sector to create jobs and flourish. Overtaxing and overspending have inflated government budgets, depriving small businesses of the capital needed to compete efficiently.

96.5 percent of home loans are either insured by FHA, or approved by Fannie Mae and Freddie Mac, and most are held by the Fed. Unfortunately, Fannie and Freddie are losing $40 billion a year under government custodianship (ownership). Sooner or later we must privatize the ownership of Fannie-Freddie; someone’s got to clean up after the party.

If you don’t find those facts disturbing, you’re reading the wrong book. — Walt Huber, Glendale College

THINK POSITIVE!

All indicators point to the fact that the U.S. economy is coming back from the recession bubble. Perhaps it’s not as quick as expected or hoped for, but there are still positive signs on the horizon. By 2016, the U.S. saw the best job creation rate in 16 years. Manufacturing costs were down and household debt-to-income ratios were the lowest in more than 30 years. As the economy goes, so goes the real estate market.