

Chapter 1. Introduction to Economic Systems and Principles

I. What Is an Economic System?

- A. Operation
- B. Wealth
- C. Adding Value
- D. Goods and Services
- E. Needs and Desires
 - 1. Biological Needs
 - 2. Socially Defined Needs
 - 3. Socially Defined Desires
- F. Rules

II. A Brief History of Economic Systems

- A. Hunter-Gatherer Economies
- B. Agriculture
- C. Trade and Conquest
- D. Feudalism
- E. The Rise of the Merchant Class
- F. Exploration and Colonialism
 - 1. Adam Smith
- G. The Industrial Revolution
- H. Political Revolutions
 - 1. Karl Marx

I. Roots of the Modern U.S. Economy

- 1. The New Nation
- 2. Divergent Philosophies
- 3. Expansionism
- 4. Industrialization
- 5. Labor Movements
- 6. The Great Depression and the

New Deal

- J. Modern Economics
- III. Capitalism and Socialism: Theory and Practice
 - A. Capitalism
 - B. Socialism
 - C. Mixed Economies
- IV. The U.S. Economy Today
 - A. A Snapshot
 - 1. Employment

Chapter 2. Supply and Demand

- I. Supply and Demand in the Real Estate Market
 - A. Uniqueness and Immobility
- II. Value
 - A. Money
 - 1. Interest Rates
 - 2. Inflation
- III. Supply Factors
 - A. Labor Force and Construction Costs
 - B. Government Controls and Financial Policies
- IV. Measuring Supply
 - A. Supply Curve
- V. Demand Factors
 - A. Population
 - B. Demographics
 - C. Employment and Wage Levels
- VI. Measuring Demand
 - A. Demand Curve
- B. Changes in Income
- VII. Equilibrium

VIII. Local Economic Strength

1. Net Exports
2. Diversity
3. Supporting Facilities (Infrastructure)
4. Diversion of Local Capital to Other Areas
(Investment Mobility)
5. Taxes

A. Elasticity

Chapter 3. Economic Change Analysis

I. The Inevitability of Change

A. Trends

B. Fluctuations

1. Periodic Fluctuations
2. Irregular Fluctuations
3. Random Fluctuations
4. Cyclical Fluctuations

C. Business Cycles

1. Peak
2. Upper Turning Point
3. Contraction
4. Trough
5. Lower Turning Point
6. Expansion
7. Duration
8. Amplitude

D. Economic Conditions

1. Recession
2. Depression
3. Recovery
4. Prosperity
5. Boom

- E. What Do Business Cycles Mean?
- F. Early Warning Indicators
 - 1. Employment and Inflation
 - 2. Population Shifts
 - 3. Saving vs. Spending
 - 4. Repair vs. Replace
- II. Economic Forecasting
 - A. The Nature of Forecasting
 - 1. Prediction vs. Forecast
 - 2. Implicit vs. Explicit Forecasting
 - B. Uses of Forecasting
 - 1. Budget Preparation
 - 2. Business Cycle Crisis Management
 - 3. Agricultural Controls and Price Supports
 - 4. Defense Spending
 - C. Approaches to Forecasting
 - 1. Data Collection
 - 2. Types of Indicators
 - a. Coincident
 - b. Lagging
 - c. Leading
 - D. Use of Leading Indicators
 - 1. Major Leading Indicators
 - a. Federal publications and websites
 - b. State publications and websites
 - c. News media
 - E. Diffusion Indexes
- III. Major Economic Indicators
 - A. Consumer Price Index (CPI)
 - 1. Calculation of CPI
 - 2. Interpretation

- B. Local CPI
- C. Gross Domestic Product (G.D.P.)
 - 1. Individual Consumption Spending
 - a. Durable goods
 - b. Nondurable goods
 - c. Services
 - 2. Investment Spending
 - a. Nonresidential investments
 - b. Residential investments
 - c. Business inventories
 - 3. Government Spending
 - 4. Net Exports
- D. Using GDP
- E. Unemployment Rate
 - 1. Data
 - 2. Limitations
- F. The Stock Market as Indicator
 - 1. Limitations

Chapter 4. Money and Monetary Policy

- I. The Evolution of Money
 - A. Money Through History
 - 1. Early Barter Economies
 - 2. Primitive Money
 - 3. Early Civilizations
 - 4. Development of Coinage
 - 5. Medieval to Early Modern Era
 - 6. Paper Money
 - 7. Goldsmith's Notes
 - 8. Eighteenth and Nineteenth Centuries
 - 9. Central Banks
 - 10. Paper Money Debate in America

- B. Forms of Modern Money
- II. U.S. Monetary Policy & The Federal Reserve System
 - 1. Short -Term Goals
 - A. History of the Federal Reserve System
 - B. Structure of the Fed
 - C. Fed's Duties
 - a. Conducting the nation's monetary policy
 - b. Supervising/regulating banking industry
 - c. Maintaining stability of financial system
 - d. Providing financial services
 - D. Tools of Monetary Policy
 - III. The Money Supply
 - A. Measures of Supply
 - a. M1
 - b. M2
 - c. M3
 - d. L
 - 1. Money Supply and Banks
 - B. Circulation of Deposit Money
 - IV. Inflation
 - A. Causes of Inflation
 - 1. Demand
 - 2. Supply
 - a. Labor
 - b. Agriculture
 - c. Quotas
 - d. COLAs
 - B. Measuring Inflation
 - V. Impact of Monetary Policy on Real Estate
 - A. Monetary Policy
 - B. Fiscal Policy

C. State and Local Governments

Chapter 5. The Real Estate Market

I. The Nature of Real Property

A. Land

1. Durability
2. Limited Supply
3. Cost Factors
4. Heterogeneity

B. Emotional Attachment

C. Political Implications

II. Characteristics of the Real Estate Market

A. Components of the Market Place

1. Complexity
2. Compartmentalization

B. Functions of Components

1. Advertise
2. Inform
3. Appraise
4. Negotiate
5. Arrange Financing
6. Transfer
7. Respond to Consumer Demand
8. Manage Risks
9. Interface
10. Market Familiarity

III. Evolving Issues

A. New Laws

1. Consumer Protection
2. Tax laws
3. Fair Housing

- 4. Americans with Disabilities Act (ADA)
- B. Ethnic Mix
- C. Architectural Fashions

Chapter 6: The U.S. Housing Market

- I. Residential Construction
 - A. Expenditures on Maintenance and Alteration
 - B. Evolution of Housing in the U.S.
 - C. The Contractor System
 - D. Architectural Styles
 - E. Housing Definitions
 - 1. Housing Unit
 - 2. Single Family
 - 3. Multi-Unit Buildings, Two- to Four-Units
 - 4. Multi-Unit Buildings, Five or More Units
 - F. U.S. Home Ownership
 - G. Unit Size
 - 1. Rooms per Dwelling
 - 2. Number of Bedrooms
 - 3. Square Footage
 - H. Modes of Construction
 - 1. On-Site Construction
 - 2. Industrialized Housing
 - a. Modular Construction
 - b. Panelized Construction
 - c. Manufactured Homes
- II. Who Owns America's Housing Stock?
 - A. Households
- III. Characteristics of the Market
 - A. Housing: A Unique Product
 - 1. Value in Context
 - a. Business Climate

- b. Infrastructure
- c. Amenities
- d. Public Sector
- e. Specialized Service
- f. Neighborhoods
- B. Subjectivity
- C. Recent History of House Prices
- D. Housing Starts
 - 1. Housing Start Cycle
- E. Local Business Conditions
 - 1. Population Growth
 - 2. Real Estate Development
 - 3. Employment Opportunities
 - 4. Retail Sales
- F. Interest Rates

Chapter 7: California's Economic Profile

- I. At Home in California
 - A. California's Diversity
 - B. Demographics
 - C. Level of Economic Activity
 - 1. Professional Workforce
 - 2. Educational Institutions
 - 3. Hospitality to New Ideas
 - D. Employment in California
 - 1. Major Categories of Employment
 - 2. The Service Sector
 - 3. Manufacturing Employment
 - 4. Federal Government as Buyer
 - E. Income
 - 1. Sources of Personal Income

- F. Agriculture
 - 1. Food processing
- G. Foreign Trade
 - 1. Technology
 - a. Electronic Products
 - b. Industrial Machinery
 - c. Transportation Equipment
 - 2. Agriculture
 - 3. Trade Balance
- II. California's Micro-Economies
 - A. Demographics
 - a. Population
 - b. Employment
 - c. Per Capita Income

Chapter 8: The California Real Estate Market

- I. Building a Market
 - A. An Economic Roller Coaster
 - B. Housing Patterns
 - C. Occupancy
 - D. Types of Housing Units
 - E. Vacancy Rates
 - 1. Geographic Factors
 - 2. Economic Fluctuations
 - F. Characteristics of Households
 - 1. Age
 - 2. Household Size
 - G. Income and Affordability
 - 1. Payment to Income Ratios
 - H. Sales of Existing Homes
 - I. Housing Starts
 - J. Rental Housing

- 1. Disadvantages of Renting
- II. Commercial and Industrial Trends
 - A. Availability
 - B. Building Types
 - C. Aging of Inventory
 - D. Environmental Concerns
 - 1. Asbestos
 - 2. Lead
 - 3. Underground Storage Tanks
 - E. Components of the Market
 - 1. Commercial Structures
 - F. Retail Market
 - a. Convenience centers
 - b. Neighborhood centers
 - c. Community shopping centers
 - d. Regional shopping centers
 - e. Shopping malls
 - 1. Availability
 - G. Office Space
 - H. The Industrial Market
 - 1. Vacancy Rates
- III. California's Rural Real Estate Market
 - A. The Land
 - a. Arable soil
 - b. Extended growing season
 - c. Water supply
 - B. Grazing Land
 - C. Inhibitors to Agricultural Development
- IV. Lumbering and Mining
 - a. Scarcity
 - b. Government control

- c. Supply
 - d. Difficult access
 - e. Transportation
 - f. Demand
 - g. Tax treatment
 - A. Mining
 - a. Quality of Resource
 - b. Economic Conditions
 - B. Environmental Concerns
- V. Open Space Protection
 - A. Farmland Protections
 - 1. The Williamson Act
 - B. Natural and Recreational Land

Chapter Nine: Land Use Planning and Development

- I. Steps in the Development Process: An Overview
 - A. Site Acquisition
 - 1. Feasibility Study
 - B. Sales Contract
 - a. Option agreement
 - b. Lease with option to purchase
 - c. Escrow instructions with contingencies
 - d. Other conditions of due diligence
 - C. Interim Activities
 - D. Project Financing
 - 1. Lender's Investigation
 - a. Restrictions
 - b. Easements
 - c. Contacts
 - d. Liens

- e. Other conditions
 - E. Construction Scheduling
 - F. Permanent Financing
 - II. Government Regulation of Land Use
 - A. Police Power
 - B. Eminent Domain
 - C. Zoning
 - 1. Zoning Objectives
 - a. Bulk zoning
 - b. Aesthetic zoning
 - c. Incentive zoning
 - d. Inclusionary zoning
 - 2. Comprehensive Plan
 - a. Land use
 - b. Housing needs
 - c. Movement of people and goods
 - d. Community facilities and utilities
 - e. Energy conservation
 - 3. Constitutional Issues and Zoning Ordinances
 - 4. Taking
 - 5. Nonconforming Use
 - 6. Variances and conditional-use permits
 - D. Building Codes
- III. Regulation Of Land Development
 - A. Land Development Plan
 - 1. Plats
 - 2. Subdivision Plans
 - 3. Subdivision Density
 - 4. Street Patterns
 - 5. Clustering for Open Space
 - B. Private Land-Use Controls

- IV. Regulation of Land Sales
 - A. Interstate Land Sales Full Disclosure Act
 - 1. Exemptions
 - B. California Subdivided Land Sales
 - C. Economic Cooperation
 - a. Establishing rapport
 - b. Willingness to compromise
 - c. Infrastructure
 - d. Participation in the planning process
 - e. Understanding community goals
 - D. Benefits to Community

Chapter 10: Fair Housing and Environmental Regulations

- I. Fair Housing Laws
 - A. The Evolution of Equal Housing Opportunity
 - 1. Fair Housing Act
 - B. Disability
 - C. Exemptions
 - D. Equal Credit Opportunity Act
 - E. Americans with Disabilities Act
 - F. Fair Housing Advertising Practices
 - G. California Fair Housing Laws
 - 1. Accessibility
 - 2. Burrows v. Jackson
 - 3. The Rumford Act
 - 4. California Civil Rights Act
- II. Environmental Issues
 - A. Hazardous Substances
 - a. Asbestos
 - b. Lead
 - c. Radon
 - d. Urea-formaldehyde

- e. Carbon monoxide
- f. Electromagnetic Fields

- B. Groundwater Contamination
 - 1. Underground Storage Tanks
- C. Waste Disposal Sites
- D. CERCLA and Environmental Protection
- E. California Environmental Regulation
 - 1. CEQA

Chapter 11: Financing and Taxation

- I. Introduction to Real Estate Finance
 - A. Availability of Funds
 - 1. Allocation
 - a. Yield
 - b. Safety
 - c. Liquidity
 - 2. Investor Expectations
 - B. The Federal Reserve System
 - 1. Reserve Requirements
 - 2. Discount Rates
 - C. The Primary Mortgage Market
 - D. Participants
 - a. Thrifts, savings associations and commercial banks
 - b. Insurance companies
 - c. Credit unions
 - d. Pension funds
 - e. Endowment funds
 - f. Investment group financing
 - g. Mortgage banking companies
 - h. Mortgage brokers
 - E. The Secondary Market
 - 1. Fannie Mae
 - 2. Government National Mortgage Association

3. Federal Home Loan Mortgage Corporation

F. Financing Techniques

1. Straight Loans
2. Amortized Loans
3. Adjustable-Rate Mortgages (ARMs)
4. Balloon Loan
5. Growing-Equity Mortgage (GEM)
6. Reverse-Annuity Mortgage (RAM)

II. Loan Programs

1. Determining LTV

- A. Conventional Loans
- B. Private Mortgage Insurance
- C. FHA-Insured Loans

1. Prepayment and Assumption
2. Discount Points

D. VA-Guaranteed Loans

1. Prepayment and Assumption

E. Cal-Vet

F. Farm Service Agency

III. Creative Financing Techniques

- A. Purchase-Money Mortgages
- B. Package Loans
- C. Blanket Loans
- D. Wraparound Loans
- E. Open-End Loans
- F. Construction Loans
- G. Sale-and-Leaseback
- H. Buydowns
- I. Home Equity Loans

IV. Financing Legislation

- A. Truth-in-Lending Act and Regulation Z
 1. Creditor

- 2. Three-Day Right of Rescission
- 3. Advertising
- 4. Penalties
- B. Equal Credit Opportunity Act
- C. Community Reinvestment Act
- D. Real Estate Settlement Procedures Act
 - 1. Computerized Loan Origination (CLO) and Automated Underwriting

V. Taxation

- A. Types of Taxes
 - a. Progressive taxes
 - b. Proportional tax
 - c. Regressive tax
- B. User Fees and Other Charges
- C. Ad Valorem Property Taxation
- D. Proposition 13
 - 1. Inequalities in Real Property Taxation
 - 2. Reassessment Procedure
 - 3. Effect on Tax Structure
- E. Reallocation of Resources
 - 1. Poverty Level
 - 2. Working Poor
 - 3. Middle Class
 - 4. Upper Class

Chapter 12: The Economics of Real Estate Investment

- I. Investing In Real Estate
 - A. Advantages of Real Estate Investment
 - B. Disadvantages of Real Estate Investment
 - C. The Investment
 - D. Appreciation
 - 1. Unimproved Land
 - E. Income Property

- 1. Cash Flow
- 2. Investment Opportunities
- F. Leverage
- G. Equity Buildup
- H. Pyramiding
- II. Tax Benefits
 - A. Exchanges
 - B. Depreciation
 - C. Deductions
 - D. Installment Sales
- III. Investing with Others
 - A. Real Estate Investment Syndicate
 - 1. Forms of Syndicates
 - B. Real Estate Investment Trusts
 - C. Real Estate Mortgage Investment Conduits

Chapter 13: The Economics of Appraisal

- I. The Evolution of Property Valuation
 - A. The Need for Appraisal
- II. The Appraisal Industry
 - A. Regulation of Appraisal Activities
- III. Essential Elements of Value
 - A. Value
 - a. Demand
 - b. Utility
 - c. Scarcity
 - d. Transferability
 - B. Market Value
 - C. Market Value and Market Price
 - D. Market Value and Cost
 - E. Basic Principles of Value
 - a. Anticipation

- b. Change
- c. Competition
- d. Conformity
- e. Contribution
- f. Highest and best use
- g. Increasing and diminishing returns
- h. Plottage
- l. Regression and progression
- j. Substitution
- k. Supply and demand

IV. The Three Approaches to Value

A. The Sales Comparison Approach

- a. Property rights
- b. Financing concessions
- c. Conditions of sale
- d. Date of sale
- e. Location
- f. Physical features and amenities

B. The Cost Approach

1. Determining Reproduction or Replacement Cost New
 - a. Square-foot method
 - b. Unit-in-place method
 - c. Quantity-survey method
 - d. Index method
2. Depreciation
 - a. Physical deterioration
 - b. Functional obsolescence
 - c. External Obsolescence
3. Straight-Line Depreciation

C. The Income Approach

1. Gross Rent of Gross Income Multipliers

- D. Reconciliation
- V. The Appraisal Process
 - A. The Appraisal Report
 - B. Unacceptable Appraisal Practices

Chapter 14: Analyzing Residential Income Property

- I. Analyzing Residential Income Property: A Process Approach
- II. Step One: Clarifying the Issue
 - A. Location
 - B. Financial Goals
 - C. Tax Considerations
 - D. Structuring of Ownership
 - E. Development Considerations
- III. Step Two: Collecting the Data
 - A. Current Economic Data
 - B. Traditional Sources
 - 1. Local Government
 - 2. Other Local Sources
 - C. Market Surveys
 - 1. Research Design
- IV. Step Three: Interpreting the Data
 - A. Project Description
 - 1. Improvements
 - 2. Prices
 - 3. Amenities
 - 4. Lot Size, Unit and Room Size
 - B. Area Description
 - 1. Economic Trends
 - 2. Infrastructure, Transportation and Services
 - 3. Shopping
 - 4. Schools and Houses of Worship
 - 5. Other Community Amenities

- C. Competition
- D. Cost Analysis
- V. Step Four: Making the Decision
 - A. Conclusions
 - B. Strategies
 - C. Assessment and Follow-Up
- VI. Measures of Investment Performance
 - A. Direct Capitalization
 - B. Cash-on-Cash Return
 - C. Band of Investment Analysis
 - D. Pay-Back Period
 - E. Proceeds per Dollar Invested
 - F. Discounted Cash Flows
 - G. Net Present Value
 - 1. Interpretation
 - H. Internal Rate of Return
 - 1. Calculation
 - 2. Application

Chapter 15: Analyzing Commercial Investment Property

- I. Fundamental Principles
- II. Types of Property
 - A. Office Property
 - 1. General Purpose
 - 2. Special Purpose
 - 3. Community of Interest Facilities
 - 4. "Parasite" Structures
 - B. Retail Property
 - 1. Mini-Mall
 - 2. Neighborhood Shopping Center
 - 3. Community Shopping Center
 - 4. Regional and Super Regional Centers

- 5. "Big Box" Power Centers
- C. Industrial Property
 - 1. Incubator Buildings
 - 2. Industrial Parks
 - 3. Office Parks
- D. Special Purpose Properties
 - 1. Other Specialized Uses
- III. Commercial Property Investment: An Analytical Approach
 - A. Economic Base of the Area
 - B. Infrastructure Availability
 - C. Attitude of Government
 - D. "NIMBY"
 - E. Environmental Matters
 - F. Competitive Factors
- IV. Trends for the 21st Century
 - A. Population
 - B. Land Supply
 - C. Transportation
 - D. Employment