

Modern Real Estate Practice in Illinois, 6th Edition
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Chapter 1: Introduction to the Real Estate Business

Learning Objectives

After reading this chapter, students should be able to:

- Identify the various careers available in real estate and the professional organizations that support them.
- Describe the five categories of real property.
- Explain the operation of supply and demand in the real estate market.
- Distinguish the economic, political, and social factors that influence supply and demand.
- Define the following key terms: broker; Federal Reserve Board; market; salesperson; supply and demand.

Why Learn About the Real Estate Business?

When people think of "real estate" — even people who are considering a real estate career — they tend to think about brokers and salespeople. While partly accurate, that's the small view. The fact is, real estate is a very big business.

- It's composed of a wide variety of professionals (and professional opportunities).
- It involves many different kinds of properties, each with its own special characteristics and issues.
- It defines a huge segment of the American economy with its own market forces.

The successful real estate professional understands the big picture. He or she knows that each individual transaction, no matter how big or how small, has an economic effect that impacts far beyond the parties gathered around the table.

Suggested Items to Bring To Class

1. Newspaper advertisements showing employment opportunities available in the various specialty areas of the real estate business.
2. Open house and career night invitations or recruitment letters from local brokerage firms and other potential employers.

3. Bulletins, brochures, and articles describing the activities engaged in by the various groups.
4. Newspaper articles and periodical articles showing the impact of the economy on the real estate business (for example, an increase or decrease in interest rates or a major employer's move into or out of the area).

Lecture Outline

I. A Very Big Business

Real estate transactions are taking place all around you, all the time. Many highly trained individuals are required to offer the various services related to the real estate business. All of these people depend on the skills and knowledge of licensed real estate professionals to best perform their jobs.

A. Real Estate: A Business of Many Specializations

To succeed in a complex industry, every real estate professional must have a basic knowledge of these specialties:

- **Brokerage** is the business of bringing people together in a real estate transaction. A broker acts as a point of contact between two or more people in negotiating the sale, purchase, or rental of property. A salesperson is a licensee employed by or associated with the broker. The broker is ultimately responsible for the salesperson's acts.
- **Appraisal** is the process of estimating a property's market value, based on established methods and the appraiser's professional judgment.
- **Property management** is when a person is hired to maintain and manage property on behalf of its owner. The basic responsibility of the property manager is to protect the owner's investment and maximize the owner's return on his or her investment.
- **Financing** is the business of providing the funds that make real estate transactions possible.
- **Subdivision** is the splitting of a single property into smaller parcels.
- **Development** involves the construction of improvements on the land.
- **Home Inspection** allows practitioners to combine their interest in real estate with their professional skills and training in the construction trades or in engineering by conducting a thorough visual survey of a property's structure, systems and site conditions and prepare an analytical report. Home inspection requires a license in Illinois.

- **Counseling** involves providing clients with competent independent advice based on sound professional judgment. A real estate counselor furnishes clients with the information needed to make informed decisions.
- **Real estate education** is available to both practitioners and consumers. State licensing laws establish the minimum educational requirements for obtaining and keeping a real estate license. Real estate courses for pre-licensing or continuing education purposes can only be offered by licensed schools and licensed instructors.
- **Auctioning** entails using an open and competitive bidding process to transfer property ownership.
- **Other areas.** Many other real estate career options are available in a variety of business settings. There are real estate related jobs in both the private and public sector.

B. Professional Organizations

- National Association of REALTORS[®] (NAR) (members are known as REALTORS[®])
- State and local NAR affiliates, such as the Illinois Association of REALTORS[®] (IAR) and the Chicago Association of REALTORS[®] (CAR)
- National Association of Real Estate Brokers (NAREB); members are *Realtists*
- Appraisal Institute, the American Society of Appraisers (ASA), the National Association of Independent Fee Appraisers (NAIFA)
- Real Estate Educators Association (REEA)
- Real Estate Buyer's Agent Council (REBAC), associated with NAR
- National Association of Exclusive Buyer's Agents (NAEBA)
- Building Owners and Managers Association International (BOMA)
- Institute of Real Estate Management (IREM)
- CCIM Institute (Commercial Real Estate)
- Commercial Investment Real Estate Institute (CIREI)
- Association of Real Estate License Law Officials (ARELLO)
- American Society of Real Estate Counselors (ASREC)

C. Types of Real Property

Just as there are areas of specialization within the real estate industry, there are different types of property in which to specialize. Real estate is classified as:

- *Residential*: all property used for single-family or multifamily housing, whether in urban, suburban or rural areas
- *Commercial*: business property such as office space, stores and parking facilities
- *Industrial*: warehouses, factories, land in industrial districts and power plants
- *Agricultural*: farms, timberland, ranches and orchards
- *Special purpose*: churches, schools, cemeteries and government-held lands.

D. The Real Estate Market

A market is a place where goods can be bought and sold; its function is to provide a setting in which supply and demand can establish market value, making it advantageous for buyers and sellers to trade. The real estate market concentrates primarily in the sale or leasing of property.

1. Supply and Demand

How prices for goods and services are set. When supply increases and demand remains stable, prices go down; when demand increases and supply remains stable, prices go up.

a. Supply and demand in the real estate market.

- *Uniqueness* means that no two parcels of real estate are ever exactly alike; each occupies its own unique geographic location.
- *Immobility* refers to the fact that property cannot be relocated to satisfy demand where supply is low.
- For these reasons, real estate markets are *local markets*: each geographic area has different types of real estate and different conditions that drive prices.
- *Technological advances* and market changes have widened the real estate professional's local market.
- The real estate market generally adjusts slowly to the forces of supply and demand.

2. Factors Affecting Supply

Factors that tend to affect the supply side of the real estate market's supply and demand balance include:

- a. Labor force and construction costs.** Increased labor and construction costs may inhibit new construction and be passed along to buyers and tenants in the form of higher prices and increased rents.

- b. **Government controls and financial policies.** The government's monetary policy can have a substantial impact on the real estate market. Virtually any local, state or federal government action has some effect on the real estate market. The actions of the Federal Reserve Board have a significant on consumer purchasing.

3. **Factors Affecting Demand**

Factors that tend to affect the demand side of the real estate market include:

- a. **Population.** Shelter is a basic human need, so the demand for housing grows with the population.
- b. **Demographics.** *Demographics* are the characteristics that describe a population. The demographics of a community is a major factor in determining the quantity and type of housing in that community.
- c. **Employment and wage levels.** Decisions about whether to buy or rent and how much to spend on housing are closely related to income.

Discussion Questions

1. How is real property used? (List examples of the uses in each category that are common in your area.)
2. Why is there so much specialization in the real estate business? Do you think this sort of specialization is similar to that in medicine or law? Do you think a specialist in real estate will have higher earnings than a generalist who works in several areas?
3. What do professional real estate organizations do in and for the real estate community? What kind of role do they play in the general community?
4. What impact does the Federal Reserve Board have on the real estate marketplace?
5. What major economic changes have occurred in the city, county, and country recently and how are these impacting the real estate market?

Classroom Exercise

1. Have the students list the various factors that can affect supply and demand in your particular real estate market. Have them list the factors under the headings "supply" and "demand" or write them under a sketch of a balance scale depicting the two headings. Tie this discussion into the present real estate climate.

2. Distribute ads from local papers indicating the types of property that are available for sale in your area.
3. Have students indicate their interests in various areas of specialization: residential or commercial sales; leasing; property management; condo conversion and condo management.