INTRODUCTION

Since buyers and sellers require different types of properties for different reasons, the real estate market is divided into sub-markets within those respective categories. Markets are influenced by the attitudes, motivations and interactions of buyers and sellers. Appraisers need to identify and interpret these actions by analysing the supply - the utility and scarcity of property, and the demand - the desire and effective purchasing power of those seeking real estate.

CHARACTERISTICS OF REAL ESTATE MARKETS

Real estate is not an efficient market by its nature given confidentiality in information and time lags; supply often lags demand because of the time required to develop new projects. (Table 4.1 Compares Efficient Markets and Real Estate Markets).

Market Segmentation and Delineation

Page 4.3 lists the possible market participants that may interact with one another in a real estate transaction. The number involved varies depending on the complexity and the needs of the participants. Market segmentation identifies the most probable users of a property by the consumer characteristics whereas product disaggregation differentiates the subject property and properties of similar attributes or characteristics. Market Delineation is that market segment identified to be most likely interested in the subject real estate and the services it provides. Thus, market analysis combines market segmentation and product disaggregation. (Figure 4.1 outlines the Market Delineation process).

Defining Geographical Boundaries

- Boundaries can be geographic or demographic. Physical boundary limits include structure types, street patterns, shopping areas, terrain, vegetation, lot sizes, and transportation routes.
- Start with the subject property and work outwards noting all similarities or dissimilarities. Walk/drive/bike the area noting defining characteristics on a map.
- Use published data such as those maps available from the Real Estate Board or the local municipality as a guide to boundaries.
- A neighbourhood is defined as a group of complementary-residential, commercial, and community land uses.
- A district has one predominant land use, commonly composed of apartments, commercial/industrial, or agricultural lands.
- A market area can encompass one or more neighbourhood or district, referring to an area where people live or work.

REAL ESTATE CYCLES

Trends in real estate can be measured by the interaction of several market statistics such as the GDP, vacancy rates, rental growth rates, capitalization rates, home price changes and changes in supply. (Refer to Figure 4.2: Real Estate Cycles and Economic Cycles).

MARKET AREAS, NEIGHBOURHOODS AND DISTRICTS

Change and Transition in Market Areas

Appraisers must be aware of changes and probable changes in the market and consider the following to get a better understanding of the area:
• What is the trend occurring in the area, is it getting better, worse, or staying the same?
• What is the rate of change and the absorption of properties in the area?
• Is there any re-zoning occurring in the area and what is overall community plan (OCP)?
• Transition is a result of change. Transition and change occur at different times affecting different areas of the market. Change can be either good or bad and of a shorter or longer duration. It is transition, from one land use to another that causes positive or negative effects of value and is usually over a longer term. In determining highest and best use it is the area in transition that requires more analysis, because of its interim use before development.

Life Cycle of a Market Area

A market’s life cycle, like an individual’s, is 1-growth, 2-stability, 3-decline, and 4-revitalization. All markets change at different rates and the appraiser needs to recognize this rate. Transition often occurs in the revitalization stage when land use is no longer financially feasible and discontinued in favour of a more productive use.

Evidence of Transition

Transition is evidenced by variations of within the market area, those differences in home condition, different land use, and indication of potential transition to a more intensive use as in the introduction of offices into a single–unit residential neighbourhood. Changes in one market area usually affect neighbouring, competing areas.

ANALYSING VALUE INFLUENCES

Gentrification is the process of renovation or rehabilitation and a reversal of the decay in a blighted neighbourhood. A consequence is the displacement of those previous residents given increased rents, property values, hence property taxes. Displacement also occurs with the consolidation of land required for the large scale public improvement projects or as a result of government action through expropriation.

Social Influences

The demographics of an area include population density, skill levels, age levels, household sizes, employment status, quality of education, medical, recreational, cultural, and commercial factors.

Economic Influences

The income levels, income distribution amongst households, property ownership, rental trends and vacancy rates, new development and redevelopment, vacant land, and past and future trends in these areas.

Governmental Influences

These refer to the tax laws, zoning, building codes, fire and health regulations, quality of public services, and environmental regulations for all levels of government.

Environmental Influences

These include any natural or man-made changes that affect the market, such as building size, density and maintenance, topographical, open spaces, nuisances and hazards from nearby developments.
(odours, noise, litter, smog, etc.), adequacy of public services and maintenance, street widths and traffic patterns, changes in land use, microclimate (winds, temperatures, and humidity), environmental liabilities, and access to public transportation.

All of the above have to be analysed to see how they may impact property values.

CHARACTERISTICS OF REAL ESTATE DISTRICTS

Different real estate districts require different services; the availability of public utility provided is reflected in real estate value.

Single-Family Residential Districts

Homeowners' associations often attempt to 1-maintain or 2-improve property values and can have a great impact on and thwarting developments. Some examples of their efforts include the limiting of traffic patterns to main roads, lobbying for and maintaining good public services, improving community facilities such as schools, recreation centres, hospitals, and shopping areas.

Multi-Family Residential Districts

These districts have their own requirements and include access to the workplace, transportation shopping facilities, reputation of the area, proximity to open spaces and recreation facilities, parking for the owners and guests (on and off the site), and vacancy and turnover rates. (Refer to Table 4.3)

Other Types of Districts

- Other districts include office, retail, commercial/industrial, and agricultural.

- Speciality districts include forestry, medical, research and development parks, high tech parks, education districts, and historic districts. See Tables 4.4 to 4.10 their characteristics.

- Historic districts are usually set up under federal, provincial, or municipal government legislation.

- The type of information discussed above cannot be learned overnight, but is a culmination of the appraiser’s 1-experiences and 2-participation in the market. That is why it is important to read local newspapers and magazines and become involved in various real estate organizations. Networking is important because information learned today may be important later. Those contacts are important and a valuable resource that you can turn to provide timely answers.

- With the advent of the Internet, searching and book-marking real estate websites is an efficient resource and useful tool for all types of data. All levels of governments have extensive websites and community profiles that provide a good overview of any district in the city or province.

- Half of the appraiser’s job is to know where to look for data and the other half is to analyse it to produce a reliable report for the client.