**Unit 1 Outline**

**Introduction to the Real Estate Business**

Outline

Real estate transactions are taking place all around you, all the time. Many highly trained individuals are required to offer 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.

1. Real Estate: A Business of Many Specialties

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

1. 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 broker is a licensee employed by or associated with a managing broker. The managing broker is ultimately responsible for the broker’s acts.

2. Appraisal is the process of estimating a property’s market value based on established methods and the appraiser’s professional judgment. In order to perform appraisals in Illinois, an appraiser license is required.

3. 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 the investment. In Illinois, property management requires a real estate license, and an individual real estate licensee must perform property management services under the supervision of his or her sponsoring broker.

4. Financing is the business of providing the funds that make real estate transactions possible.

5. Subdivision is the splitting of a single property into smaller parcels.

6. Development involves the construction of improvements on land.

7. 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 preparing an analytical report. In order to perform home inspections in Illinois, a home inspection license is required.

8. Counseling involves providing clients with independent advice based on professional judgment. A real estate counselor gives clients the information needed to make informed decisions.

9. 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.

10. Auctioning entails using an open and competitive bidding process to transfer property ownership.

11. 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. 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

1. *residential*: all property used for single-family or multifamily housing, whether in urban, suburban, or rural areas;

2. *commercial*: business property such as office space, stores, and parking facilities;

3. *industrial*: warehouses, factories, land in industrial districts, and power plants;

4. *agricultural*: farms, timberland, ranches, and orchards; *and*

5. *special purpose*: churches, schools, cemeteries, and government-held lands.

C. 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

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

(1) *Uniqueness* means that no two parcels of real estate are ever exactly alike; each occupies its own unique geographic location.

(2) *Immobility* refers to the fact that property cannot be relocated to satisfy demand where supply is low.

(3) For these reasons, real estate markets are *local markets*: each geographic area has different types of real estate and different conditions that drive prices.

(4) *Technological advances* and market changes have widened the real estate professional’s local market.

(5) 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 reflected in higher prices and increased rents for buyers and tenants.

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 impact 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. Demand may shift from one area to another as the population shifts.

b. Demographics. *Demographics* are the characteristics that describe a population. The demographics of a community are major factors in determining the quantity and type of housing in that community. This provides an opportunity for niche marketing.

c. Employment and wage levels. Decisions about whether to buy or rent and how much to spend on housing are closely related to income.