

## RE 618 / Fin 618 – Real Estate Investment Analysis

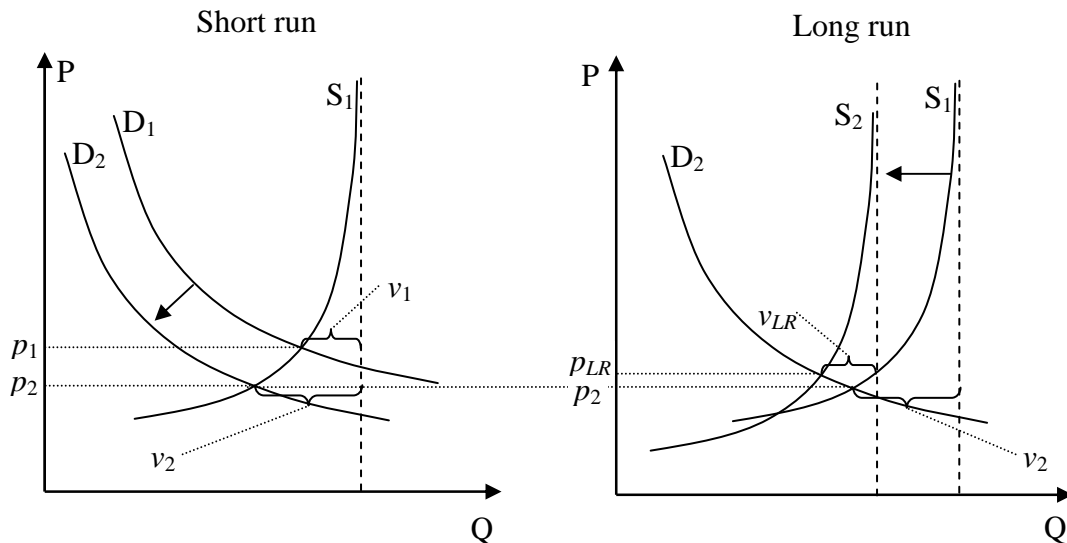
### Introduction to Commercial Property Markets – Practice Problems – Solutions

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- 1) Explain briefly how rents and vacancies will respond to a sudden *decrease* in demand in a specific real estate market (e.g., downtown loft apartments). Make sure you discuss both short-run and long-run effects. Use a supply-demand graph to illustrate these effects.

A decrease in demand causes the demand curve to shift to the left. In the short run, rents will fall (from  $p_1$  to  $p_2$ ) and vacancies will increase (from  $v_1$  to  $v_2$ ).

In the long run, property owners will remove space from the market, perhaps converting it to other uses or demolishing obsolete units to redevelop the space at some future time. This will cause the supply curve to shift to the left, raising rents (to  $p_{LR}$ ) and decreasing vacancies (to  $v_{LR}$ ).



- 2) In class we said that the most important characteristic of real estate is its fixed location. Explain briefly why this is true and some of its implications for real estate space markets.

The key characteristics I'm looking for are uniqueness, interdependency of land uses, scarcity, and high search and information gathering costs.

- 3) Name three distinct types of commercial real estate in which you might invest.
- 4) Commercial real estate is typically categorized into classes based on a number of factors. Describe briefly a few factors that would distinguish Class A space from Class B space.
- 5) Name one building in Wichita you would consider a Class A building.

6) Name one building in Wichita you would consider a Class B building.

- \_\_\_\_\_ 1. Real estate space markets are typically segmented by
- A. size, geographic location, and investor.
  - B. property type, geographic location, and size.
  - C. **PROPERTY TYPE, GEOGRAPHIC LOCATION, AND USE OR QUALITY WITHIN A TYPE.**
  - D. geographic location, investor, and quality.
- \_\_\_\_\_ 2. True or **FALSE**: Real estate is generally viewed as a commodity because, for example, one commercial office building is pretty much the same as another.
- \_\_\_\_\_ 3. Suppose there is a sudden new interest among businesses in being located downtown, so that the demand for commercial office space in downtown increases. Which of the following outcomes will most likely follow in the short run?
- A. Rents will fall and vacancies will rise
  - B. **RENTS WILL RISE AND VACANCIES WILL FALL**
  - C. Both rents and vacancies will fall
  - D. Both rents and vacancies will rise