

Real estate: where would you be without it

If you think real estate is location, location, location you haven't looked at financing - Anon

Landowners ... love to reap where they never sowed – Adam Smith

It's a **real** thing

The biggest game in town

There's a lot of it about

Introduction to Real Estate Markets

The industry

The rule of private property begins with property in land – Karl Marx

The bloody stuff's *everywhere*

You can't have a free society without private property – Milton Friedman

Property has its duties as well as its rights – Thomas Drummond

The greatest show on earth

If everyone thinks real estate is location, location, location they haven't thought about pricing – Tony Key

Buy land, they don't make it any more – Will Rogers



1.1 The world's biggest industry?

- Real estate is “land and structures attached to it” – what isn’t?
 - in total amounts around 50% of total world wealth ([Savills](#))
- In the UK (the proportions are much the same across developed economies)
 - GDP = £2,090 b, value of residential £6,582 bn, commercial £1,179 bn
 - real estate is 70% of the total stock of physical capital assets
 - 1.6 x total market capitalisation of UK FTSE
- 12-15% of annual GDP is construction & property, 3-5% commercial
 - including 50% of total annual investment (25% each resi & commercial)
- In the world of finance & investment, commercial property is:
 - ~7% total assets of insurance & pension funds,
 - 10% of total bank lending, but 40% of bank loans to non-financial sector
 - but property companies are only 2% market cap of UK FTSE
 - (the listed sector is a bit bigger in USA, much bigger in Asia)

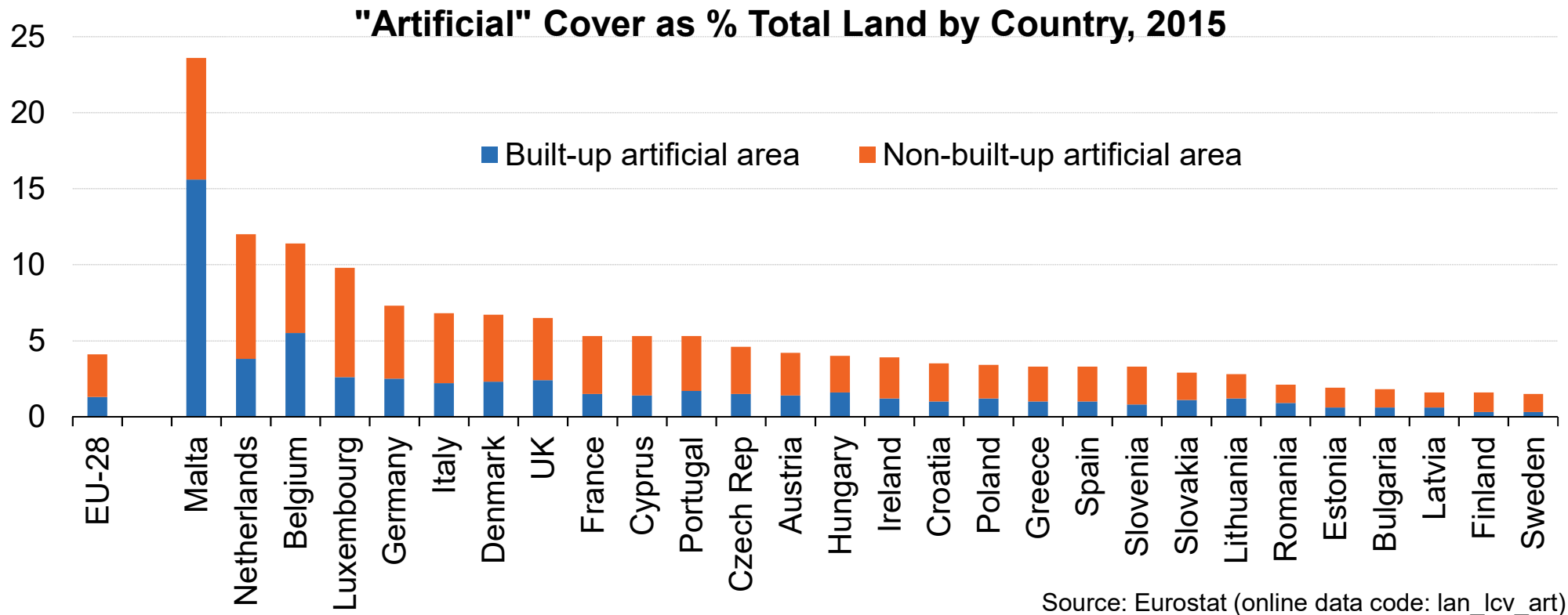


1.2 Real estate splits opinion on social & economic structure

- *The rule of private property begins with property in land, which is its basis.* Karl Marx
- *And that this Civil Propriety is the Curse, is manifest thus, Those that Buy and Sell Land, and are landlords, have got it either by Oppression, or Murder, or Theft.* Gerrard Winstanley
- *Landowners, like all other men, love to reap where they never sowed, and demand a rent even for the natural product of the land.* Adam Smith
- *You cannot have a free society without private property.* Milton Friedman
- *If you take a walk through the countryside, from Indonesia to Peru, and you walk by field after field, in each field a different dog is going to bark at you. Even dogs know what private property is all about. The only one who does not know it is the government.* Hernando de Soto
- That is all the political economy you will get on the course
 - if you like this stuff, try [Andro Linklater, *Owning the Earth*](#)
 - ... and you will want to pay [higher real estate taxes](#)



1.3 Property the popular fallacy: we're short of land, right?



- “buy land, they don’t make it any more” – because supply is fixed, price must go up ...
 - Adam Smith, David Ricardo thought so **but** commercial real estate uses little land
- UK: 70% of all surface area agricultural, only 7% “artificial” (any kind of structure)
- England: 4.3% of land gardens, 2.2% roads, 1.1% residential, **0.7% other buildings**
- if we add commercial development on (cheap) agricultural land supply is not tight ...



1.4 What types of commercial property are there?

- As a professional you may come across all types of property, they all have to be *managed / valued ...*
- Potential, increasingly, real estate *investments* range across farms, forests, residential, prisons, hospitals, care homes, pubs ...
- But large investor portfolios are mostly shops, offices, sheds ...
 - retail, office, industrial account for 66% of commercial rental value (ex residential)
 - and those types account for 90+% of value of UK investment portfolios

Rental Values, England & Wales

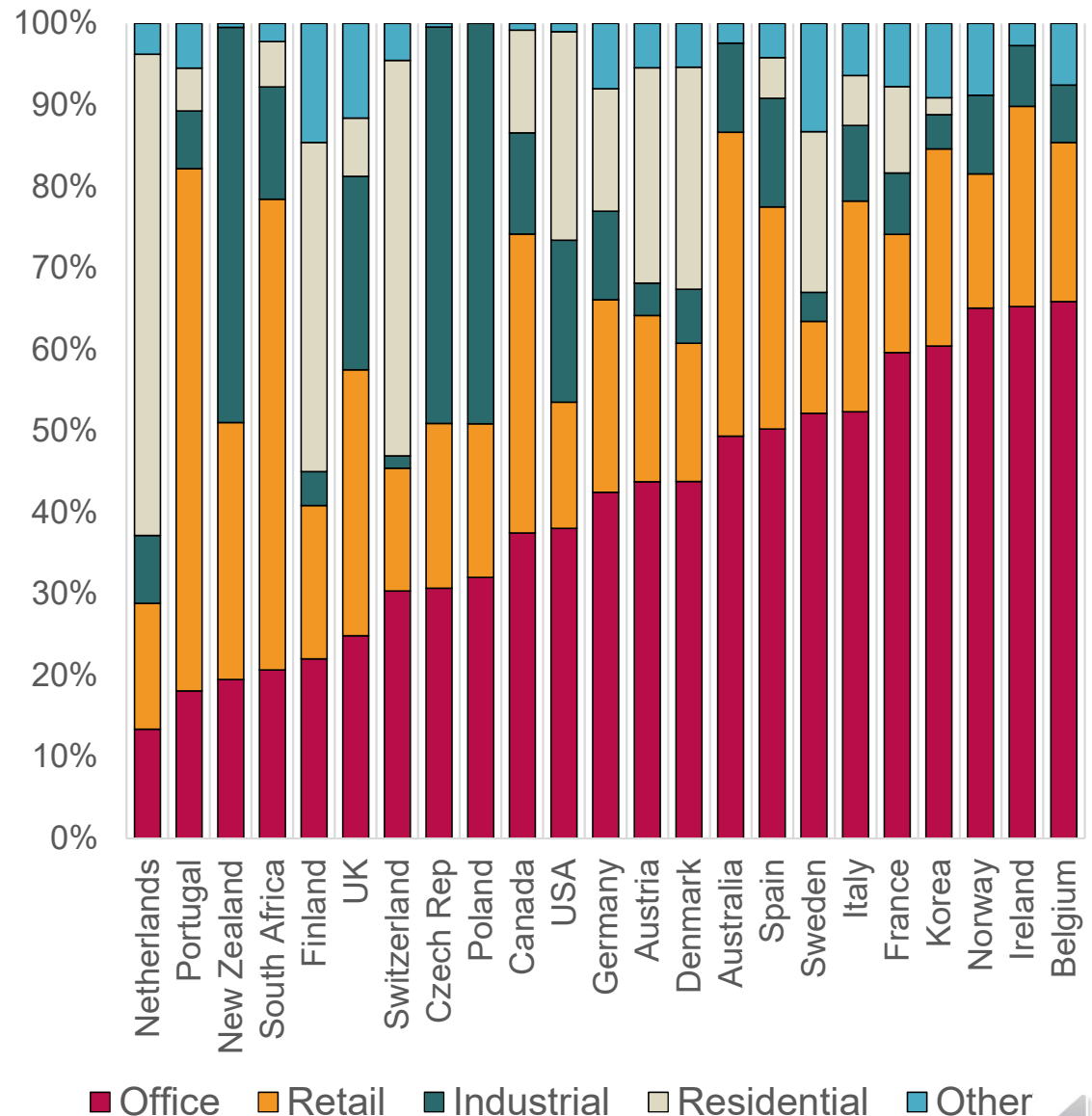
	# Props 000	Rental Value £m
Offices	296	11,034
Shops	500	10,775
Warehouses & stores	205	7,184
Factories, mills & workshops	242	5,735
Pubs & wine bars	65	1,652
Local authority schools & colleges	25	1,325
Electricity companies	-	1,077
Garages & petrol stations	46	1,068
Other properties	39	1,054
Hotels etc.	41	1,029
Other utilities	6	1,027
Medical facilities	28	980
Other commercial	25	855
Restaurants & cafes	34	847
Telecommunications	-	604
Water companies	-	525
Community centres & halls	35	458
Car parks	49	457
Quarries, mines etc.	6	437
Other industrial	4	403
Other leisure	29	395
Universities	1	375
Police stations & courts	3	331
Private schools & colleges	3	284
Cinemas, theatres etc.	3	264
Sports grounds, golf courses etc	11	240
Local government offices	3	233
Other educational, training and cultural	11	219
Libraries and museums	5	208
Railways	-	188
Holiday sites	7	178
Docks	-	138
Sports centres & stadia	1	126
British Gas - Transco	-	81
Advertising rights	40	66
Markets	2	54
Bus stations, moorings etc.	2	27
Cemeteries and crematoria	3	26
Hostels & homes	2	22



1.5 What types of property are “investment” property

- Most of the course deals with “investment property” – buildings **leased to tenants**, owned by **large-scale professionally managed investment portfolios**
- Globally investment property is still mostly retail and office
- But with large exposure to residential in some countries
- Plus growing exposure to “other” alternative sectors – hotels, leisure, student housing, health care, agricultural, forests, data centres, radio masts, prisons
- The data come from MSCI, the [international provider of indices & benchmarks](#) - take a look, you will see a lot of their numbers.

Sector Portfolio Weights by Country, end-2019



1.6 Where is “investible” commercial property? US \$ billion



“Investible” real estate is buildings of a type, size and quality typically held in large scale “professionally managed portfolios”. “Invested” real estate is actually owned by those investors – the rest is owner-occupied, used as operational assets by companies.

We don’t have good numbers for either investible or invested, but for the former we can use a formula to estimate property values as a function of GDP and GDP per capita (don’t worry about the details; the EPRA *Global Market Size* in Moodle uses slightly older numbers).

Suggests a global total of “investible” property around \$31 trillion (cf global equity markets around \$80 trillion). Property actually owned by investors (as against owner occupied) is usually estimated at around \$15 trillion.

Property values are largest in bigger and richer countries. So the value of property in big poorer countries like Russia, Turkey, Indonesia, India is less than smaller rich countries like Italy. USA, China, Japan = nearly 50% of global total, top 20 = over 80% of global total.

Now @ 75% of investible property is in the “developed” economies, 25% in “emerging” economies like China, India. By 2050, the share of emerging economies is likely to be over 50%.



1.7 Summary: the world of property

- The world's largest store of wealth
- A major element of the economy
 - especially critical to financial stability
- We are not in general short of building land
 - unless uses have to be in specific locations
 - or planners don't let us build
- Residential the largest built up land use
- Retail, office + industrial the largest investment markets
- Global total of “invested” property app \$12 tn
- Emerging economies are doubling their market share

