



KNOWING YOUR MARKET PLACE TEN CORE ECONOMIC PRINCIPLES

The following ten core economic principles come into play when learning the market place. If you have a basic knowledge of them, you can structure your investment deals with pricing, purchasing, and selling decisions.



ANTICIPATION

Bases real estate's value on its future profitability and advantages. What are the areas of town that are developing or redeveloping? Are there areas prime for a new emergence?



BALANCE

Property attains maximum value when the production agents are economically stable. Production agents are the necessary components to bring a commodity or service to market: land, labor, capital, and coordination. Where are the jobs? Where are the schools? Where is entertainment?



CHANGE

Value is influenced by variations both inside and outside of the market. Is there new construction or revitalization going on?



COMPETITION

The striving between parties to develop, offer, or obtain real estate and the contest between properties to capture consumer attention. Property worth is impacted by both types of competition. Is there a variety of properties in an area being offered? Single-family, condo, apartments?



CONFORMITY

Value increases the more similar a property is to others in the same category or location. Are you comparing similar properties to each other? Do they have the same number of beds, baths, living areas and garage? Are you considering the same amenities that each property has? Are you taking into consideration condition? Are the neighborhoods the same?



CONTRIBUTION

The feature of a property is only as valuable as it increases its worth. Are you comparing properties with pools? And what value are you giving the pool? What about energy efficiency? Lifetime roofs?



EXTERNALITIES

The value of real estate is impacted by "external" conditions such as the four value forces—economic, social, political, and environmental. Is the economy stable in the area you are looking or increasing or decreasing? Is there parks, recreation, churches and schools nearby? Crime rate? Flood zone?



HIGHEST AND BEST USE

The legal use of a parcel of land, which, when capitalized, will generate the greatest net income. What is the property zoned? What is around the property to insure conformity to the neighborhood?



SUBSTITUTION

A property's value cannot be greater than the sale price of those with similar features and utility. Always make sure you are comparing similar properties and condition. What value can I place on a feature my property has or does not have?



SUPPLY AND DEMAND

When supply is high, and demand is low, the price of real estate is low; conversely, when supply is low and demand is high, the price is high. It is important not to just look at the individual property but overall neighborhood. How many properties are for sale? How many properties have sold? How many days on market? How many properties did not sell?



Written by

Cathy Crowe is the owner of Investor Deals with 35+ years of experience in the real estate investment industry. To find out more about Cathy please visit the about page on InvestorDeals.com or contact her at 214-850-4527 | Cathy@InvestorDeals.com