LSE REAL ESTATE ECONOMICS AND FINANCE

Overview
This course is an introduction to the theoretical and practical functioning of urban real estate markets using concepts from urban economics, finance and real estate economics.

In the first half of the course, we will cover the productive and consumption advantages of urban areas and location patterns within cities. We will see how these help determine demand for residential and commercial real estate, as well as looking at differences in supply for different types of properties. We will also discuss the impact of policy, with a special focus on taxation and urban planning.

Equipped with this framework, the second half of the course will explore how demand and supply for space determine real estate asset prices and how to measure them. We will then discuss how those measures can be used to value commercial real estate, as well as other techniques for valuation, focusing on cash-flow analysis. From there, we will explore how those valuations, financial leverage, and portfolio considerations are used to make real estate investment decisions. Finally, we will investigate the drivers of real estate cycles and emerging market trends to study their implications for investment outcomes.

A major component of the course is the case study in which students value a mixed-use commercial real estate property using the knowledge and techniques they have learned.

This course will be particularly relevant for students interested in employment in real estate related fields in the public or private sector; or for students who are considering further education in this field.

Prerequisites: Introductory microeconomics and introductory statistics

Outcomes
- Discuss the determinants of locations decisions of households and firms within and across cities
- Use the urban economic models to predict how urban structure and real estate prices may be affected by changes in the city
- Recognize urban areas differ with regards to their supply constraints, and understand how these constraints are shaped by human and natural factors
- Predict the effect of different microeconomic policies on Real Estate prices based on theoretical and empirical evidence
- Explain the differences between different valuation measures in residential and commercial real estate
- Analyse the impact of financial leverage and portfolio considerations on an investment decision
- Draw on theory to assess the impact of a shift in supply and demand on residential and commercial property markets.

Key topics

- Course introduction. Real Estate values over space and time
- Why do cities exist? Agglomeration economies and urban consumption
- City Systems, city size and prices
- Monocentric City Model and spatial equilibrium
- Real estate supply, demand and equilibrium
- Public policy and real estate
- Real estate price measurement
- Real estate investment trusts
- Risk and Financial leverage
- Mortgages
- Dynamics of the last housing boom and bust
- Emerging market forces in real estate

Reading materials

- Archer, Wayne R., and David C. Ling, "The three dimensions of real estate markets: Linking space, capital, and property markets", Real Estate Finance 14.3 (1997): 5-11.
- Brueggeman, W. B. and J. D. Fisher (2005), *Real Estate Finance & Investments*, (13th edition or newer), New York City, NY: McGraw-Hill/Irwin.
- Gunnelin, Åke, et al., "Determinants of cross-sectional variation in discount rates, growth rates and exit cap rates", Real Estate Economics 32.2 (2004): 217-237.
- O'Sullivan, Arthur (2007), *Urban Economics*, McGraw-Hill/Irwin.
- McDonald, J. F. & D. P. McMillen (2011), *Urban Economics and Real Estate, Theory and Policy*, (2nd edition), Blackwell.