

California Real Estate Finance
Chapter 1
Nature and Cycle of California Real Estate Finance

Chapter Purpose

The first of two chapters that addresses the question, *What is finance and money?*, this chapter describes the nature of real estate finance as a manifestation of our credit system economy. It defines property and the ownership thereof as well as special financial relationship, including collateralization, hypothecation and leverage. It compares local financial market activities to national markets and examines the components and actions of the real estate cycle. It reviews current changes in financial attitudes and activities.

Suggestions to the Instructor

It is suggested that the students try to determine where their community fits in the current real estate cycle and in which direction this cycle is heading.

Learning Objectives

Upon completion of this chapter, the student should be able to:

1. describe property , the ownership entities of property, the estates in realty and real estate characteristics;
2. differentiate among the financing relationships of collateralization, hypothecation and leverage;
3. comprehend the extent of mortgage lending activities in this country;
4. delineate between local and national real estate markets;
5. understand the factors that affect real estate cyclical activities;
6. describe the current activities in the local real estate financial market.

Presentation Outline

- I. History of Finance Law
- II. Nature of Real Estate Finance
 - A. Ownership of property
 1. Property
 2. Real property
 3. Personal property
 4. Commercial fixtures

- B. Estates in realty
 - 1. Freehold estate
 - 2. Leasehold estate
 - C. Real estate characteristics
 - 1. Physical
 - 2. Economic
 - 3. Social
- III. Mortgage Lending Activities
- A. Illustrate scope of activities by reference to Tb.1.1
 - B. Credit system economy
 - C. Financing relationships
 - 1. Collateral
 - 2. Hypothecation
 - 3. Leverage
 - D. Local markets
 - 1. Primary market
 - 2. Originating lenders
 - E. National markets
 - 1. Resale market
 - 2. Secondary market
 - 3. Participants include FNMA, GNMA, FHLMC, and private investors
- IV. Real Estate Cycles
- A. A study of past activities can help make better current investment decisions
 - B. Supply of and demand for money
 - 1. Government demand
 - 2. Industry demand
 - 3. Savings supply
 - C. Population characteristics
 - 1. Current changes in composition
 - 2. Baby boomers
 - 3. Changes in household compositions
 - D. Political attitudes
 - 1. Fast growth
 - 2. Planned growth
 - 3. No growth
 - E. Income taxes
 - 1. Tax Relief Act of 1997 (TRA97)
 - 2. Reactions to constantly changing tax code
- V. Changes in Real Estate Finance