

# THE MANY FACES OF PROPERTY MARKET CYCLES

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The property market cycle has many players who influence its stability both directly and indirectly. Many studies have been carried out to define the structure and operation of property markets. This paper aims to analyse property market operation and to assess to what extent it has succeeded in meeting the objectives of built environment economics. Starting with a summary of the current state of property market, the findings of the paper suggests ways to overcome obstacles within the current property market in which different facts of the property market might be adapted for use in the near future. In particular it describes how it is possible to define value factors in a more flexible way taking account of the particular characteristics of property market cycles in the UK.

Keywords: cycle, property market, value

## INTRODUCTION

The impact of information technology over the past decade had led to dramatic changes in the world of property; particularly in the process by which buildings are produced. Changes have also influenced how buildings are traded between investors. The property market is a major source of wealth creation for investors and developers (Real estate institute of Australia 2004). Many studies have been carried out to define the structure and operation of property markets. Property has obvious influence on the competitive advantage of urban industry, and it is a key element of the production activities of all firms (Hoesli and Macgregor 2000). The market value is defined through the interaction between supply and demand, when supply or demands are changing, market prices adjust, as a result affecting the relationships among the three property markets (development, investment, and user market) (Keogh 1994).

Living in a global economy has affected all aspects of life. The property market cycle has so many players who have a great influence on its stability directly and indirectly. Cultural, demographic, economic, environmental, governance, and technological - have a huge impact in performing the process of design, finance, development, occupancy, managing and valuation of property. The need for a competitive market has increased and the ability of property agents to control its economic environment in relation to other players has been influenced by the global change.

This research aims to highlight the property market operation and to assess the general aspects in which they have succeeded in meeting the objectives of the built environment economics. Then identifies possible shortcomings and suggests ways to overcome the current property market situation in which the different factors of the

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property market operation scheme might be adapted for use in the near future. In particular this research will demonstrate how is it possible to define value factors in a more flexible way, taking into account the characteristic of property market cycles and the role of Architect-Developer. Two case studies are presented to examine the means by which Property Architect-Developer activity could increase value, productivity and profit in the property market.

## **MARKET CONDITION / SUPPLY AND DEMAND**

Economists have noted that the real estate market is always changing, and the occurrence of a sustained rise in property rental prices as a barometer for the impending onset of a property boom (Barnes 2000). Consider what is going on in the property market when rents go up and consequently the market will have a property boom. There are two significant driving influences resulted from these changes which is tenants will consider buying a property seriously and landlords will look to get more return from higher rents then they will invest more money in properties. The overall effect of these factors on the property market will be more obvious on buyers (first time buyers) and the demand will exceed the supply due to the amounts of available property cannot be increased or reduced quickly and easily. Consequently prices will go up with significant rates. Moreover the high prices will make property purchase out of reach for small investors and maintain the problem of liquidity which is common in the property market.

Good property evaluation has a strong impact on buyer. Identifying the demand for property is a complex environment because the property market - includes activity of collecting rent, refurbishment process, and lease renewals- has a unique feature of being mixed process, lack of basic information, as well as management problem (Seeley 1996). The availability of market information and rationality among property agents has a major impact on market efficiency (Keogh 1994). Market information is important to analysis and valuation of property assets. They are also needed to serve as benchmarks to the appraiser who uses the information to compare and decide whether any of property assets are performing in relation to the performance of other properties.

On the other hand lack of basic information on property market opportunities results in poor decisions by market actors and diminishes the prospect of markets attracting mobile real estate investment, with negative implications for competitiveness. Price is determined in the market on the basis of supply and demand, generally, increase in property price will cause to rise in consumption (the demand for buildings can increase dramatically as output rises) (Golcher 2002), however, if interest rates rise, it will cause a serious financial difficulties for some financial firms, lenders and banks as well as for the home owner (will be in a risk of loosing the property). Therefore, it is quite likely that the total volume of output is affected by the cause of the complete decline of investments in property (Flanagan and Norman 1993).

The property market is sometimes held to be inefficient due to lack of liquidity because of the rise in transaction costs which has contributed to the difficulties of property companies in raising new capital, as the liquidity of their shares has declined (Isaac 2002). High transaction costs lead to decrease the frequency of housing adjustment and restrict investor's ability to take advantage of serial correlation in house prices (Cho 1996). In addition, some of factors that cause lack of liquidity are:

legal problem in registration, high unit cost, inflexibility, and lack of central market place

## **PROPERTY VALUE**

Some of the factors affecting property values are summarized below:

### **Planning Process**

Baker recommended, in his report about the shortages in UK housing market, speeding up planning process which affects the economic environment in a particular way to meet the arising demand and increase the supply over the long term (Barker 2004). Moreover, he summarized the shortages in three points which is: the slow planning process, increasing demand, and building companies holding land banks. The production process of new properties is slow and most likely that the building process presents difficulties in developing decision making (Seeley 1996). Generally developers wait until the increase in property demand and price can be clarified, the process could balance between the property market players (tenant, investor, buyer and land values).

### **Quality, Design and Total Return**

According to Healey and Baker (1987), rental values depend on the functionality of good design. Berman (2003) mentioned that the good design leads to success of the project. One should notice that the property might be in a poor condition but if it has the potentiality of improvement, it might still sell readily at a good price. As well as a period design might increase the value of a property, particularly if it is in an area which is fashionable or modern. It is therefore reasonable to hypothesize that the term low quality is a main cause to decrease in value. The quality in equities on the property market can substantially increase the investment returns but also, can be defined as resistance to depreciation and obsolescence (Baum 1989).

Maximizing Net Present Value (NPV) remain the main concern for the property developer, however, it is clear that increased cost which has a relation with the quality and good design, will reduce NPV. On the other hand, increased cost can be expected to have an impact on income as shown in formula:  $TR = (Y + CV - P) / P$ , (Where: TR: total return, Y: income, CV: capital value, P: construction cost). Having looked to the equation, the increasing in cost P construction cost will also increase Y income and CV capital value, and a final result the TR total return may not change, as a result high quality at least will lead to high value (Baum 1989).

### **Depreciation**

Obviously, the building would decline over a certain period of time (Baum 1993), it depends in part upon occupier use. There is a relationship between depreciation rate, age, and quality. In order to establish the strongest relation between them, an intensive questioning of real estate professionals was carried out, it was clear that a stronger and more meaningful relationship exists between quality and depreciation. On the other hand, as Baum (1989) concluded that there is a relationship between quality and return, the depreciation lead to poor quality which is the cause to reduce the investment return of the property.

### **Public Transport and Property Values**

Wrigley and Wyatt observed that, the changes in equilibrium of land uses and land values can be established through the development of transportation networks.

However, the efficiency of land value depends on increased accessibility, and therefore car parking becomes insignificant option for town center space, at the same time areas outside a priced zone may become more attractive and increase in value (Wrigley and Wyatt 2001). As a result the demand will increase incredibly against the supply. Whether transportation networks changes occur gradually and continuously or suddenly and discretely, it is fundamental to recognise the impact of transport on land use and property values at least to consider whether or not a new road would develop land values or may destroy an area of woodland used by local people for recreational purposes.

### **Impact of International Environment**

It should be pointed out that, the international factors play an important part in property markets worldwide, for example, the terrorist attacks in America, which created an uncertainty on the world economy, especially on the nature of the property market future. Additionally there are other factors which have an impact on property market in terms of the price and the volume such as earthquakes disasters, floods damages, as well as, aspects of living environmentally (the risk of sars disease) (Hamelink and Hoesli 2002).

### **Government Policies**

According to (Mackmin 1989), it is commonly accepted that balanced property markets are essential for the economic and social success of communities, regions as a whole. Achieving this balance requires the government to respond to the problems both of housing shortage and of over-supply. So initially developers provide new property in order to generate profit for themselves. Investors who buy the new property receive income from the occupier in the form of rent and their ability to trade the property but at the same time this process framed by UK government policies. In most cases, after a number of years, these policies may change and the effect will play an important role in the economy, finance, and the property market automatically.

Improve stability in the property investment market to give small investors a reason to continue to access commercial property returns through providing more liquid complement to the current range of property investment and taking diverse demands into account. Develop the most economical planning system by achieving required balance in demand and supply in a way that provide the property companies, who engaged in process, the opportunity to react to property demand and to obtain a balanced distribution between different types of property. Structural change in property markets to reduce costs and improve flexibility and quality for tenants.

### **The Architect-developer**

Property market is an essential factor in the economy of nations, which is increasingly recognized in both locally and internationally. There are enough attractive characteristics about property development that, as long as the market demand holds out, it may expect to see new buildings created by new architect-developer, who will provide an innovative management and proper design approach to all aspects of this booming industry. As there is a growing demand for high skilled, qualified architect-developer; Architect-developer through proper design could increase value, productivity and Profit in the property by:

1. Reducing operating costs,

2. Providing facilities for new developments founded upon accurate market demand information,
3. Improving effectiveness and success rate of projects by improving managerial skills and their team work during the project lifecycle.  
[[www.propertyinvesting.net/content/land.htm](http://www.propertyinvesting.net/content/land.htm)]
4. Maximising the investment by well-designed building as it could reduce bills now and increase its long-term value (RIBA 2005)
5. Design production under sufficient specifications, as unacceptable design reduces its value by increasing operating costs and its limited life cycle.

## **DISCUSSION**

For a certain project to be undertaken by an Architect - Developer, one should view clearly market demand for that property to deliver optimum profitability, and should be comfortable with their own ability to complete that type of project successfully. Property Developer – Architect has to be aware of market condition as it shows in the following figure (1), to have an adequate market status evaluation on demand and supply.

In order to evaluate his decision making process to have the right perspective, figure (1) suggested a framework for such guidance, covering Buyer's, sellers, and balanced market. To react positively for the property market's demand, developers have to accomplish a development process supply in a fast, efficient and robust way. Property supply-demand chain; this supply could be in two ways which identified within two case studies.

### **Case study 1,**

When developers invest new capital in new land with a positive future's perspective by new construction process or in suggesting new development possibilities in a pre built land, such as transforming part of the land /garden (Wren Homes Group PLC).

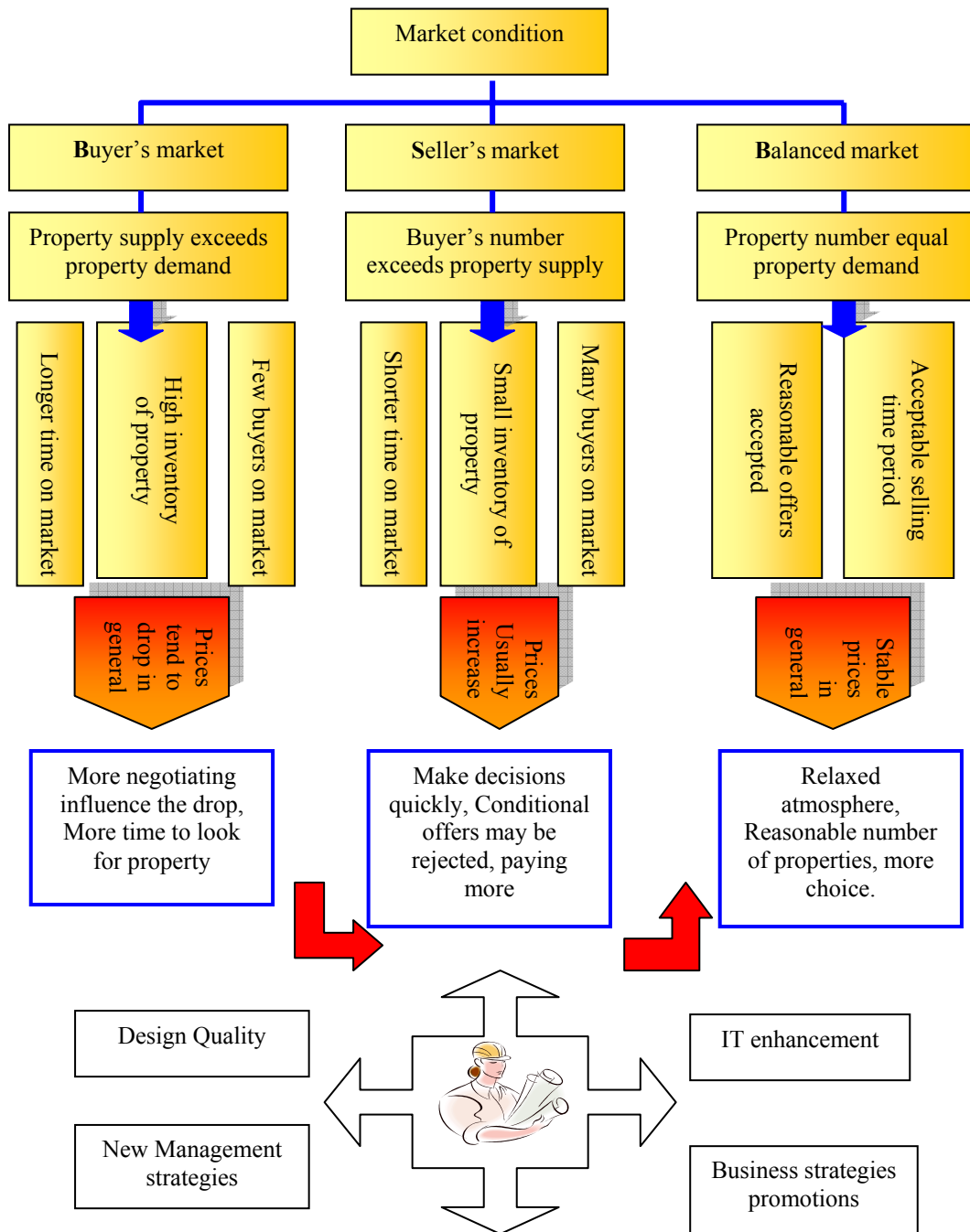




Figure (1) Property market conditions-the cycle



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### Case study: 1

Wren Homes Group PLC.



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Wren's specialist expertise is development with integrity.  
 In realising this golden opportunity-

- We build out individual or exclusive small groups of homes.
- They are sympathetically designed to enhance each individual location.
- We take a considered, sensible and courteous approach.
- We care about each environment, and locality.
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### Business strategies

1. New approaches for decision making process to attract more buyers into the market;
2. Business strategies: cutting agents fees cost (with the average of £ 2000) and that will decrease the final cost of the property,
3. Competent staff to enhance the ability to control and speed up the planning process together with even better house designs and layouts.

### Design quality

1. Looking to attract new buyers with a positive future perspective; such as, new roads in the area, country walk, and new transportation facilities (bus/train station).
2. To have a better market for their developments, they remote these developments under the location ,futures perspective ,differences in finishing types –design quality and modernization, or a period house features.

### IT enhancement

1. The use of information technology (IT) promotes all these factors and presents it in a very good way to meet the buyers' expectations, needs and wishes.
2. Obtaining the accurate information at the right time.

### Case study 2,

When developers invest in pre builds properties by modern renovation process or part exchange schemes (Gleeson Homes Company).

**Gleeson Homes** - Because Reputations Aren't Built Overnight

Home | New Home Search | My Gleeson Homes | The Company | Latest News | Careers | Part Exchange Scheme | Sales Enquiries | Other Enquiries | FAQ's

Home > **New Vs. Old - What's the real cost of a second-hand home?**

Quickjump: Select a County | Select a Development

Roll-over a flashing circle to see more details.

OLD
NEW

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**Case study 2 :**  
**Gleeson Homes Company**

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**Gleeson Homes** - Because Reputations Aren't Built Overnight

Home | New Home Search | My Gleeson Homes | The Company | Latest News | Careers | Part Exchange Scheme | Sales Enquiries | Other Enquiries | FAQ's

Home > Surrey > Guildford > **Weyford Meads**

Click image for an enlarged version.

Quickjump: Select a County | Select a Development

**Key Features**

Styles: End Terrace, Terrace

Price Range: (Guide price) From £268,950

Bedrooms: 1, 2

Telephone us: 01483 880900

Note: More information is available from our agents Clarke Gammon & Wellers.

Description: A forthcoming development of just 12 houses, all with 3 bedrooms. The development will consist of terrace and end terrace properties.

### Business strategies

Part Exchange scheme; exchange new houses for 2nd time buyer house, by conducting a market research and a surveying to evaluate the current value of the buyer's house in order to know how much the old house cost in order to add the difference in the price without any transaction fees, so there is no selling fees.

### IT business enhancement

Sending messages by IT simulation capabilities as a simple and understandable communication.

### Design Quality

Apply different construction patterns to one development project; size variation e.g. 2bedroom house, 2-4 bedroom houses. Houses or the most popular new build property is apartments – the reason is land shortage, land prices and planning constraints.

## CONCLUSIONS AND RECOMMENDATIONS

Although, the property must be viewed as an illiquid investment because the transfer costs of properties are high and the selling period normally takes several months, the capital or rental value of property is varying widely depending to its location, quality level, and the commercial market conditions including the demand in a particular time, in which the government policy is making the property investment process



smoothly. One of the most important factors which influence the property value is, for instance, the lack of liquidity which is created because of the high transaction costs, problem of registration, inflexibility, and lack of central market place. Recent developments in information technology have had a huge influence on productivity, economic growth, property value and the ways in which the local property market operates.

On the other hand, uncertainties in the market which includes the need for more suitable property and the level of supply of new development sites, both are drivers of land value which operate the property market cycle effectively towards achieving strong economics of the built environment. There are a number of areas where improvement could extend the boundaries of this study which is listed below:

1. Improve stability in the property investment market to give small investors a reason to continue to access commercial property returns through providing more liquid complement to the current range of property investment and taking diverse demands into account.
2. Develop the most economical planning system by achieving required balance in demand and supply in a way that provide the property companies, who engaged in process, the opportunity to react to property demand and to obtain a balanced distribution between different types of property.
3. Structural change in property markets to reduce costs and improve flexibility and quality for tenants.

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