UNIVERSITY OF CALIFORNIA, BERKELEY

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UGBA184: URBAN & REAL ESTATE ECONOMICS
and
CP207: LAND & HOUSING MARKET ECONOMICS

Spring 2016

Course Description

Why do technology firms cluster in Silicon Valley? Why do most Americans live in suburbs? Why are rents so high in San Francisco? Was the recent boom-bust cycle in housing prices predictable? The objective of this course is to tackle these and other important questions by studying the location decisions of households and firms, and how these decisions shape the development of cities and impact real estate prices.

The first two-thirds of the course are about urban economics. We start by covering the fundamental principles of urban economics, and the reasons why people agglomerate in cities. This leads to a discussion of the determinants of firms and households location choices, and of how these choices impact firms' productivity, households' welfare, land rents, land prices, and development patterns. We also examine how government policies, including land use regulation, impact location decisions.

The last third of the course is about real estate markets. That is, we extend our analysis of cities to the built environment itself, and in particular to the operation of owner-occupied housing markets and of commercial real estate markets (income-producing properties i.e. office, multi-family, retail and industrial real estate). We also cover the basics of the financial analysis of a real estate investment. We then discuss the causes and consequences of real estate cycles, with an emphasis on the recent housing and financial crisis.

Each lecture features a discussion of a recent newspaper article relevant to urban and real estate issues. Lectures are also reserved for guest speakers, one city planner and one real estate professional, and for presentations of students' team project.

For business students, this course is a natural companion to UGBA 180, Introduction to Real Estate and Urban Land Economics, because it places the analysis of real estate markets in a broader economic context, which complements a more standard analysis of financial markets. The course will also be of interest to students from economics, political science, public policy, city planning and other disciplines with interests in urban issues and real estate. A background in (very) basic calculus and microeconomics is preferable, but any motivated student can be successful in the course

Course Organization

The course will meet every Tuesday and Thursday from 3:30-5pm, in C220 (Cheit building at Haas School of Business). I will hold weekly office hours after each Tuesday class, from 5-6. My office is in the main faculty building on the 6th floor (F616). I am happy to schedule appointment outside of office hours via email. I encourage students with disabilities who require accommodation to communicate with me by e-mail, office hours or appointment. The GSI for this class is Christopher Lako (clako@berkeley.edu), and he will also set up office hours to meet with students.

Note that the course is cross-listed between the undergraduate business administration program (UGBA 184) and the master's in city planning program (CP 207). The evaluation is the same for both groups, except for the written project and presentation, as detailed below.

Evaluation

Midterm exam: 25%, will be held in class on March 8th. I will post examples of previous midterms on bCourse. The best way to prepare for the midterm is to prepare for, attend, and actively participate in every class, and at home to re-do the problem sets and previous exams for the course. The midterm exam will require you to use the tools and skills you have developed during the first 14 lectures.

Project 20% and presentation 5%: The project will be a joint research project, ideally conducted in 4 to 5 person teams, resulting in a short paper and a brief presentation to the class. You will organize your team; I will work with your team to develop a suitable research question. I will set aside some class time during the week of March 15th to discuss the research project in more detail. I will also provide written instructions to clarify expectations. I will be happy to discuss potential research topics at any time. For undergraduate students, the paper will be around 10 pages, and for master students it will be around 15 pages, with higher expectations on the quality of the final output. You are allowed to form teams including both UGBA and CP students, but any team with at least one CP student will be graded according to CP criteria. Presentations will occur in class during last three lectures of the semester, precise schedule TBA. Finished papers will be due on Friday May 6th, the last day of the review week, at 5pm.

Final exam: 40%. I will post examples of previous finals on bCourse. The final exam will require you to use the tools and skills you have developed during the entire class.

Class Participation: 10%. Much of the learning in this course occurs in class, and it is thus fundamental for you to attend every session and participate actively. Your participation will be evaluated based on both the quality and frequency of your contributions. In order to facilitate evaluation, I ask you to sit in the same general area for the duration of the semester. Your participation grade will be either "excellent" (10/10) for someone who frequently makes highly constructive contributions to the class discussion, "good" (8/10) for

someone who comes to class and makes positive contributions to the class discussion, “ok” (6/10) for someone who frequently misses lectures and rarely contributes to the class discussion, and “poor” (0/10) for someone who never or rarely shows up in class. I expect that no one will get this “poor” grade.

Readings and learning material

Text: The textbook for this class is O’Sullivan (2011) *Urban Economics*. McGraw-Hill 8th Edition. The book will be available at the bookstore. A Kindle edition is also available through Amazon, along with an option to rent or to purchase a used copy. In previous years in which I taught this course, the textbook was required. Based on feedback from students, I decided to make the textbook optional, because slightly more than half of all students last year did not buy the textbook, and felt that the lecture slides were sufficient.

Papers: I will post all papers that are required reading for this class on bCourse, except for Geltner, D. (2006): “Commercial Real Estate”, for the April 12th lecture, that will be available on Study.net for a small fee. I will also post supplemental readings for the highly motivated, or for those willing to deepen their knowledge of a particular topic.

Newspaper articles: At the beginning of every class we will discuss a recent newspaper article related to urban or real estate issues (from WSJ, Financial Times, NYT, etc) that I will post on bCourse the day before class. I encourage all students to suggest articles for discussion, either by e-mailing me or by posting a link on the bCourse discussion board.

Problem Sets: There will be 5 non-graded problem sets that I will post according to the detailed schedule below. Working on the problem set is an important part of learning the material, and of preparing for the exams. The problem sets are not graded, but I will always post detailed solutions online.

Academic Integrity

You are expected to demonstrate the highest levels of integrity in all of your academic endeavors – no cheating, no plagiarism, and no shirking on the group project. Late papers will not be accepted without my prior approval. The consequences of cheating and academic dishonesty—including a formal discipline file, possible loss of future internship, scholarship, or employment opportunities, and denial of admission to graduate school—are simply not worth it, so be good!

Course outline and reading list

Introduction and Preliminaries

- O’Sullivan, Chapter 1

Why Cities, Downtowns and Silicon Valleys?: Transportation costs and agglomeration economies.

- O’Sullivan, Chapter 2 and 3

- Glaeser, E. (undated) “The death and life of cities,” (Recommended, not required reading. This paper will not be discussed in class.)

City Size

- O’Sullivan, Chapter 4

City Growth: Urban Labor & Residential Markets, and Sustainable Cities

- O’Sullivan, Chapter 5
- Glaeser, E. and M. Kahn (2008) “The Greenness of Cities: Carbon Dioxide Emissions and Urban Development,” *NBER Working Paper 14238.*

Land Rent and Land Use

- O’Sullivan, Chapter 6

Suburbanization, Decentralization and Sprawl

- O’Sullivan, Chapters 7
- Brueckner, J. (2000) "Urban sprawl: diagnosis and remedies," *International Regional Science Review* 23(2) 160-71.

Neighborhood Choice, Segregation and Gentrification

- O’Sullivan, Chapter 8
- Guerrieri, V. and D. Hartley and E. Hurst (2013) “Endogenous gentrification and housing price dynamics,” *Journal of Public Economics* 100, 45-60 (recommended not required, will only briefly discuss in class, focus on section 1 to 3 as the rest is somewhat beyond the level of this course.)
- Couture, V. and J. Handbury (2015) “Urban revival in America, 2000-2010”, preliminary version (Optional, my own paper, read only if you are interested!)

Zoning, Land Use Regulation and Growth Controls

- O’Sullivan, Chapter 9
- Quigley John M. and S. Raphael (2005) “Regulation and the high cost of housing in California,” *American Economic Review: Papers and Proceedings,* 95(2), 323-328
- Glaeser, E., Gyourko, J. and R. Saks, (2005) “Why is Manhattan so expensive? Regulation and the rise in housing prices,” *Journal of Law and Economics* XLVIII 331-369 (Read introduction only.)

Local Government, Property Taxes and Local Finance

- O'Sullivan, Chapter 17 and 18

Housing Market

- O'Sullivan, Chapter 14 and 15
- Shiller, R. (2007) "Understanding recent trends in house prices and home ownership," Cowles Foundation Discussion Paper 1630.
- Glaeser, E. (2010) "Housing policy in the wake of the crash," *Daedalus*, Fall 95-106.
- Gyourko, J. (2007) "Urban housing markets," (Recommended, not required reading. This paper will not be discussed in class.)

Commercial Real Estate Markets

- DiPasquale, D. and W. Wheaton, (1992) "The markets for real estate assets and space: a conceptual framework," *Real Estate Economics* 20 191-198.

Real Estate Investment Analysis

- Geltner, D. (2006) "Commercial Real Estate," in Arnott, R. and D. McMillen (eds.) *Companion to Urban Economics*. Malden, MA: Blackwell, pp. 211-227. **(*available on study.net*)**
- Gyourko J. (2007) "Understanding Commercial Real Estate: Just How Different from Housing is it?" *NBER Working Paper 14708* (Recommended, not required reading. This paper will not be discussed in class.)

Real Estate Cycles: Lessons from American History

- Glaeser**,** E. (2013) **"**A Nation of Gamblers: Real Estate Speculation and American History", *American Economic Review: Papers and Proceedings*, 103(3), 1-42 (The paper is a little hard going at times, so a shorter and simpler version of the paper is also available on bCourse.)

Tentative Schedule

Date	Meeting	Topics
19-Jan	1	Introduction and Preliminaries
21-Jan	2	Why Cities, Downtowns and Silicon Valleys?
26-Jan	3	Why Cities, Downtowns and Silicon Valleys?
28-Jan	4	City Size, PS1
2-Feb	5	City Size
4-Feb	6	City Growth
9-Feb	7	City Growth
11-Feb	8	Land Rent and Land Use,
16-Feb	9	Land Rent and Land Use PS2
18-Feb	10	Suburbanization, Decentralization and Sprawl
23-Feb	11	Neighborhood Choice and Segregation
25-Feb	12	Zoning, Land Use Regulation, and Growth Controls
1-Mar	13	Zoning, Land Use Regulation, and Growth Controls, PS3
3-Mar	14	Guest Speaker: Michael Caplan and Jordan Klein from Berkeley's OED.
8-Mar	15	Mid-Term Exam
10-Mar	16	Local Government, Property Taxes and Local Finance
15-Mar	17	Housing market, Project Meetings
17-Mar	18	Housing market
22-Mar		Spring Break
24-Mar		Spring Break
29-Mar	19	Housing market
31-Mar	20	Commercial Real Estate Markets
5-Apr	21	Commercial Real Estate Markets, PS4
7-Apr	22	Real Estate Investment Analysis
12-Apr	23	Real Estate Investment Analysis
14-Apr	24	Real Estate Cycles: Lessons from American History, PS5
19-Apr	25	Guest Speaker: TBA
21-Apr	26	Project Presentations
26-Apr	27	Project Presentations
28-Apr	28	Project Presentations