

THE WORKINGS OF URBAN REAL ESTATE MARKETS

**INTRAURBAN LOCATION PATTERNS AND SPATIAL
PRICING
AGGREGATE METROPOLITAN MARKET BEHAVIOR**

RENA MOUROUZI-SIVITANIDOU

*In Memory of
Rena Mourouzi-Sivitanidou*

*A most dedicated and hard working academician and researcher
A wonderful and very much loved human being and teacher
That was overwhelmingly occupied by a sense of duty
and the quest for excellence*

Introduction

This volume puts together most of the published research of Professor Rena Mourouzi-Sivitanidou, an extremely hard working and dedicated academician whose overwhelming drive for excellence in her teaching and research was very well known and recognized by her students and her peers.

Born in Kyrenia, a very beautiful little town on the north coast of Cyprus, and raised by two very loving, and very well educated parents that taught her the highest values and ideals by the example of their life, Rena marked a bright and shining path since she was a little child. It was a path that left her teachers impressed by her performance and captivated by her personality. Throughout elementary and high school, she was consistently the best student in her class winning awards and distinctions year after year, graduating with perfect scores and a scholarship award for undergraduate studies in Athens, Greece.

After she finished her undergraduate studies at the National Technical University of Athens, Rena entered the Planning program at the Georgia Institute of Technology in Atlanta, where she received her Masters in City Planning. She subsequently continued her graduate studies at the Department of Urban Studies and Planning at the Massachusetts Institute of Technology where she received her Ph.D. During her doctoral studies she focused on urban and regional economics, with emphasis on urban, land and real estate economics. Very shortly after she graduated the Ph.D. program in early 1991 she was hired as an assistant professor at the University of Southern California (USC).

From the first year she started teaching at the School of Urban and Regional Planning at USC as assistant professor in 1991, until after 9 years later, when she prematurely passed away from cancer, Rena's devotion to her work and her passion for excellence won her in each and every year the Best Professor Award. Rena taught for nine consecutive years in the Master of Real Estate Program the core course Market Analysis for Real Estate. She also taught in the planning program Urban Economics and Economic Foundations for Planning and Development. Rena's hard work and devotion to her academic duties and her students as well as her excellent performance as a teacher and a researcher will be remembered for years to come by her peers and her students.

Professor Sivitanidou's research and published work is marked by the same dedication and excellence that won her the Best Professor award for nine consecutive years. Furthermore, her published work is very focused thematically and exhibits remarkable continuity and coherence. As a result this collection of 13 papers, that have been mostly published in the top journals in the field of urban and real estate economics, and a book chapter, make up a very coherent, insightful, and comprehensive volume on the workings of urban real estate markets with emphasis on intraurban location patterns and spatial pricing as well as aggregate market (metro-level) behavior. It should be noted that Rena's two first published articles, which she co-authored with Professor Karen Polenske when she was still a doctoral student, are not included in this volume because of their somewhat different focus on regional economic analysis.

This volume specifically presents high quality research and state-of-the art empirical analysis on three major topics: a) intraurban location patterns and spatial pricing in office-commercial markets, b) intraurban location patterns and spatial pricing in industrial markets, and c) aggregate metropolitan office market behavior with focus on capitalization rates and construction investments. As such, the book presents a wealth of very concrete insights regarding the operation of contemporary urban real estate markets that are backed with real world data and solid empirical analysis. Therefore, this volume should be of great interest to academicians, professionals, and public policy workers in the areas of planning, development, urban economics and real estate.

The focus and contribution of the research presented in this volume is described in an excellent,

knowledgeable, and coherent way by Rena herself in the personal statement she included in her tenure package, which was submitted to the School of Urban and Regional Planning at the University of Southern California in the Fall of 1996. Here are Rena's own words:

“The field of Planning and Development studies various facets of cities and urban development. Consistent with this all-encompassing field, my long-term research objective is to shed light on the spatial structure, functioning and evolution of urban markets within modern metropolises. The latter provide a consistent point of reference in exploring those forces, market or public policy-induced, that are driving interlinked patterns of land and real estate rents, firm and household location, and established or emerging metropolitan forms.

In pursuing this research objective, I have completed a set of papers that progressively address issues pertaining to the long neglected non-residential sector within or across polycentric markets. These papers share three defining features:

The first includes their reliance on the broader theoretical disciplines of *urban land and real estate economics* to explore aspects of office-commercial and industrial markets. Providing the starting point of most of my work to date are urban spatial theories that largely draw from the micro-economic theories of household and firm behavior. Such theories offer coherent frameworks not only for advancing propositions on urban land markets but also for developing consistent empirical formulations for testing them.

The second feature of these papers includes their early emphasis on theoretical modeling and subsequent focus on *empirical analysis* of issues stemming from theoretical work. Empirical analysis does entail a great effort, but such effort is worthwhile. Theory does need to be empirically explored or be confronted with real-world data. Sensible empirical analysis can in turn help refine theory.

Lastly, the third common trait of my papers involves the emphasis they place on Los Angeles which, according to many, appears to be the precursor of U.S. metropolitan trends and the prototypical metropolis of the 21st century. Los Angeles provides a rich laboratory within which to study issues related to urban structure, patterns of urban development, and (most importantly, perhaps) patterns of change.

My research centers on three main areas of emphasis, defined along the type of market analyzed and/or the themes being pursued. The first area of emphasis involves the closely interrelated issues of firm location choice, spatial organization and pricing within polycentric *office-commercial* markets. The second relates to location patterns and spatial pricing within various *industrial* markets—the markets for production, warehouse and distribution, and research and development space. Finally, the third evolving area of emphasis pertains to the *aggregate* behavior of office-commercial markets and relevant concepts of market disequilibria, real estate capital market behavior, and rental adjustment processes. Although the contents of, and insights gained from, my research on these issues are discussed in more detail below, the broader contribution of my work can be summarized as follows:

First, my research provides useful insights into the functioning of the little-researched nonresidential sector at the intraurban and aggregate level of analysis. The broader question of how urban markets function and how the price system operates at the spatial (micro) or metropolitan (macro) levels has long been the focus of academic research in urban and real estate economics. Yet the study of nonresidential markets has largely been neglected by

academic research which, for decades, has (deservingly) placed overwhelming emphasis on the markets for housing structures or residential land. The relative upsurge of interest in nonresidential markets in recent years reflects the recognition that they need to be more thoroughly studied. Nonresidential sectors are the backbone of urban economic activity and important components of the urban environment. They are vital to the functioning of cities and have long been instrumental in shaping urban form.

Second, my work features analytical and empirical findings that are not only of interest to academicians in the planning , development and real estate fields but also to professionals in the public and private sector. From the public sector’s perspective, the understanding of spatial traits that concomitantly influence firm location, land property values and, as such, jobs and tax revenues is imperative for sensible public policy analysis. From the private sector’s perspective, the understanding of what creates “value” within spatial markets and of what drives such markets through time is at the heart of “successful” development and investment planning.”