



RE420: URBAN AND REGIONAL ECONOMICS

(Real Estate/Economics/Urban and Regional Planning)

Fall 2016

Group 002, GRAINGER, room 1185, 9:30 A.M. – 10:45 A.M., Mon & Wed
Group 001, GRAINGER, room 1195, 11 A.M. – 12:15 P.M., Mon & Wed

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COURSE OBJECTIVES (KNOWING)

Urban economics is the study of cities, of the economic activities therein, and of the determinants of those activities. To an economist, urban economics is characterized by the introduction of space and location to microeconomics. To a real estate practitioner, urban economics is to real estate as physics is to engineering. Like businessmen and women, urban economists find their boundaries of enquiry and activity expanding. In this course, students will:

- Learn stylized facts about cities, their sizes and types, and their contributions to economic and social development
- Understand how the recent subprime financial crisis shaped the economy
- Understand local, national and international drivers of housing and real estate activity
- Understand the main determinants of cross-border real estate capital flows
- Understand the impact of regulations on urban development and welfare
- Understand why space and location matter and why cities exist in the first place with an emphasis on the role of trade, economies of scale, and agglomeration effects
- Understand the determinants of land prices
- Understand the “limits-to-growth”
- Learn about the role infrastructure plays in the modern city and in real estate markets with an emphasis on transportation
- Understand how to improve walkability in a city
- Learn why homelessness and housing affordability is a big challenge in the US
- Understand the role that municipal bonds play in the economic development of cities

MAIN TOPICS AND PROJECTS

1. The macroeconomics of regional and international real estate markets (Decision-making / forecasting at the macro level)

- The Real Estate System
- Relationship between cap rates and bond yields
- Important economic events in history: Implications for international real estate investments
- Impact of monetary policy on international real estate investments, e.g, Brexit
- Real Estate Crises: the Great Recession and the Subprime Mortgage Crisis
- Discussion of “House of Debt” book: theories of international trade, unemployment, frictions, role of debt, the Great Recession
- Business cycle: GDP, leverage and contagion, government debt, mortgage debt, taxes, bonds, yields, inflation, Laffer curve
- Geographical Diversification: Correlation, Excel, MBS & CDO

2. Applied urban economics

Decision-making / forecasting at the local level

- How competitive land prices are determined
- How the market selects different uses for land
- Commuting cost and land prices
- City size and land prices
- Density and land prices
- Impact of transportation technology on land prices
- Non-linear bid rent curves:
 - US MSA bid rent curve shapes, determinants and implications for forecasting
- Spatial feasibility analysis:
 - Location decision in a constrained optimization approach to the Front Door model
- Affordable housing: tax credits and city grants
- Zoning
- Neighborhood choice
- Growth controls

3. Walkability, homelessness and affordable housing

- Walkable cities & the “siftr” software
- Homelessness and housing affordability (paper)

4. Public finance and banks’ portfolio geographical diversification of real estate exposures

- Public finance (TIF, municipal bonds, EB5, corporate citizen)
- Banks’ portfolio geographical diversification of real estate exposures

COURSE PREREQUISITE

Economics 101 and Calculus

TEXTBOOKS

- **Required (buy ASAP)** Atif Mian and Amir Sufi, “House of Debt”, University Of Chicago Press 2014. A concise and powerful account of how the great recession happened and what should be done to avoid another one.
- **Required (use coupon and get it ASAP)** Matthew Desmond, “Evicted”, Crown 2016. A concise and powerful book about poverty and profit in the American city.
- **Recommended (not required!)** Arthur O'Sullivan, "Urban Economics", 8th Edition. McGraw-Hill / Irwin, 2012. ISBN 10: 0073511471; ISBN 13: 9780073511474. This is basic text for the course. It contains more material than we can realistically cover in a one-semester course. I plan to cover at least 30% of this book in class. In particular, I expect to discuss Chapters 6-9, 10, 14-15.

For advanced students interested in getting a little more depth on the material seen in class, I recommend (not required!):

- **Richard K. Green and Stephen Malpezzi, “A primer on U.S. Housing Markets and Housing Policy”** for those students interested in housing and government intervention)
- **Jan Brueckner, Lectures on Urban Economics. MIT Press, 2011.** Jan Brueckner has been the long-time (former) editor of the Journal of Urban Economics. His book is a great choice for econ majors who want to get a little more depth on the models we use. It's rigorous without being excessively technical; most of the analysis is graphical.
- **Jaime Luque, “Urban Land Economics”, Springer 2015.** This book covers the main aspects of regional and urban economics and presents state-of-the-art theories in a comprehensive and concise way. The book is composed of chapters written by students of the Wisconsin real estate program during the Fall 2014 semester.

Here are some non-technical books, some a bit older, on U.S. cities generally:

- **Glaeser, E. (2011), Triumph of the City: How our greatest invention makes us richer, smarter, greener, healthier, and happier. Penguin.**
- **Caro, R. A. (1975), The power broker: Robert Moses and the fall of New York, Vintage Books New York.**
- **Cronon, W. (1992), Nature's metropolis: Chicago and the Great West, WW Norton & Company.**
- **Garreau, J. (2011), Edge City: Life on the new frontier, Random House Digital, Inc.**
- **Jackson, K. T. and D. S. Dunbar (2002), Empire City: New York through the centuries, Columbia University Press.**

ASSIMILATION ("DOING")

Good students teach themselves, the instructor merely points the way. Sometimes I highlight important questions related to the material seen in class. The purpose is to help students master the material. I encourage students to answer these questions at home, going over the material seen in class. I encourage students to work on these questions in groups, but at the same time, I always encourage them to try to understand by themselves every issue that appears in the questions. Whenever time allows, I will review the answers to the questions I formulated during class time.

COURSE WEBSITE

All class material will be put in advance in our course website in Moodle. Students are expected to be familiar on the functioning of this website. Every student must update his/her information and upload a picture as soon as possible.

OFFICE HOURS AND GROUP MEETINGS

Email me or check with me at class for an appointment. I respond to student emails as I can (give me at least two working days and don't expect me to answer your emails during the weekend). I do encourage you to see me. I'm a big believer in face-to-face contact.

GRADING

I will grade students using the scale 0-100. Conversion of final grading to letter grades will follow the School of Business' guidelines: "For all [...] undergraduate courses with class numbers below 600 and 15 or more students enrolled, the mean grade should be no higher than 3.3 and the maximum percentage of A's is 30%." Final grade is computed using the following weights:

- 5% active participation
- 10% homework on "House of Debt" module
- 15% homework on "Applied Urban Economics" module
- 5% homework on "Walkable cities" topic
- 5% homework on "Evicted" book
- 25% essay on homelessness and housing affordability, of which:
 - 10% presentation (classmates' evaluation)
 - 5% group peers' evaluation
 - 10% quality of the essay
- 35% quizzes

CLASS ATTENDANCE: Class attendance is mandatory, and more than 5 absences will count against you. In addition to the lectures, there will be student presentations and discussions. I expect all students to be present in every class and participate with questions during their peer presentations. The rules for class attendance are the following: Any student can miss up to 5 classes (no justification needed). Usual reasons are trips with the School, doctor appointment, or job interviews. All of them are fine, but I do not want students to miss more than 5 classes. Otherwise, I will penalize absences as

follows: for every additional missed class, the student will lose 2 points (out of 100 points which is the maximum grade in the course). For example, if a student misses 7 classes, he/she will lose 4 points (2*2) out of his final grade. This rule applies to every student. Think twice if you can commit to enroll on this course. If you expect to have numerous field trips and job interviews, you may want to enroll in this course in the next semester. Don't miscalculate the number of occasions you can miss class. Something can happen unexpectedly that may force you to miss one or more extra classes (in addition to the 5 allowed absences), and this will count against you.

ACTIVE PARTICIPATION IN CLASS: I also expect students to be actively engaged in learning throughout the course and to be proactive in seeking any assistance that may be necessary. This means that students should take full advantage of office hours, class discussions and other activities throughout the course. Also, the student should participate in class, with questions during the lectures, debates, and other students' presentations. To encourage active participation, I will give 10 points (out of 100) to those outstanding students that actively participate in class.

Also, in the last 5 minutes of each class, I will distribute a minute paper that asks you to provide a short answer to the following questions: 1) which part of the lecture did you find most interesting? and 2) what problems/concepts have you struggled with the most? Minute papers are very helpful for me to understand if the material seen in class is all clear. I usually spend some time at the beginning of each class to clarify the doubts that students wrote in the minute papers of the previous class. In addition to the minute paper, we may do short online quizzes that reflect your level of understanding of the material seen during the lecture.

Undesired class behavior during class time and office hours can affect your letter grade.

PRESENTATIONS AND ARTICLE SUMMARIES: In order for students to develop their leadership, communication, and skills, I require students to write an essay on homelessness and housing affordability, and then present in front of their classmates their main findings.

Essay: I will sort students in small groups and expect them to produce an essay of at least 7 pages. The style for the final draft is **New Times Roman, 12 points font size, and double space (align text to both left and right margins!)**. The head of the draft should contain: a) Title of the paper, and b) Name of students in the group. Section titles should be avoided along the article summary. The style of the essay should be similar to the style in "Evicted" book (I will provide more information on this during class time).

Presentation: In the presentation the students have to briefly summarize their main findings, explain what they have learnt and found most interesting, and formulate one question to their classmates. This question will be part of the material that all students must study for the final exam. The person/group that presents a paper is responsible to answer all questions from their classmates not only during their presentation, but also at any time during the semester.

The first and final drafts of the essay and presentation must be posted in our course website before the corresponding deadlines (announced in class). Failure to follow any of these rules will result in a loss of at least 30 points.

The grades of the essay and presentation will be a result of the classmate evaluations and the group peer evaluations. A student who is in class but does not submit his/her *classmate evaluation form* (or submits the evaluation but is incomplete) will suffer a penalty that will affect his/her participation grade. In the case that you present the paper with other students, you must also submit your *group peer evaluation form* no later than the day of your presentation. Otherwise you will suffer a penalty.

HOMEWORK: In addition to the presentations, I will assign homework. I expect students to work individually on their homework. If a student misses the homework deadline, still he/she must submit his/her homework, but will suffer a 70% penalty on the grade of that homework.

STRUCTURE OF QUIZZES AND EXAMS

In the quizzes and also in the exams there will be questions about the research papers presented in class and also long and short/multiple-choice questions about the material seen in class. For the long questions, a good answer must have the following four elements: 1) Assumptions (and model if it is relevant); 2) Economic intuition; 3) Numerical example or intuitive figures; 4) Supports of theoretical arguments with empirical facts. I believe that this type of exams will help students in their future professional careers, by giving them some experience on how to write reports by summarizing the main economic ideas and facts. Also, this type of exam (and the preparation for the exam) will improve students' writing skills. Many employers tell the faculty that writing skills are an important consideration in their hiring decisions.

RULES

1. No cell phones.
2. Respect the time when class starts.
3. Bring your UW picture ID to exams.
4. Prudent use of the laptop in class (an excessive use can be disrupted and will be penalized accordingly in the "class participation" grading part).
5. Cheating is a serious offense, and I take it seriously. All students should be familiar with University policy on academic misconduct at <http://www.wisc.edu/students/conduct/uws14.htm>.

WEB RESOURCES

There are a few separate web sites that you'll want to know about if you're taking real estate courses.

1. The Library's Electronic Reserves Page. This site is only accessible from your personal account at DOIT: <http://my.wisc.edu>. Go to your "Academics" page for a connection to library resources for your registered courses. This is where you'll find many of the course readings, downloadable in Adobe Acrobat's PDF format.
2. The Real Estate Department's home page, which is accessible to anyone on campus or off: <http://www.bus.wisc.edu/realestate>. This site contains basic information about the program, links to data sources, etc.
3. The UW Writing Center: <http://www.wisc.edu/writing>. The Writing Center, on the 6th floor of Helen C. White Hall, offers free short courses to help you improve your writing skills. Many employers tell the faculty that writing skills are an important consideration in their hiring decisions and a writing course can help you with your writing. Stop by the Center or check out their web site.

4. The UW-Madison Real Estate Club: <http://www.realestateclub.org>. I advise all of you to seriously consider joining the club. Or, just go to a meeting and see what it is all about. I think early exposure to your colleagues (junior and senior) and potential business partners is potentially an enormous benefit to your future career and enjoyment of the study and practice of real estate.

PRELIMINARY SCHEDULE

Sept 7 (Wed)	Introduction
Sept 12 (Mon)	The Macroeconomics of the Subprime Mortgage Crisis
Sept 14(Wed)	The Macroeconomics of the Subprime Mortgage Crisis
Sept 19 (Mon)	The Macroeconomics of the Subprime Mortgage Crisis
Sept 21(Wed)	The Macroeconomics of the Subprime Mortgage Crisis
Sept 26 (Mon)	The Macroeconomics of the Subprime Mortgage Crisis
Sept 28(Wed)	Applied Urban Economics: Urban Land Rent
Oct 3 (Mon)	Applied Urban Economics: Urban Land Rent
Oct 5 (Wed)	Applied Urban Economics: Neighborhood Choice
Oct 10 (Mon)	Applied Urban Economics: Zoning and Growth Controls
Oct 12 (Wed)	Applied Urban Economics: Zoning and Growth Controls
Oct 17 (Mon)	QUIZ 1
Oct 19 (Wed)	Walkable Cities & "Siftr" (Angela Richardson) & intro to homelessness & "Evicted" book
Oct 24 (Mon)	Guest speaker from The Road Home (Kristin Rucinski or Program Director)
Oct 26 (Wed)	Guest speaker from Porchlight (Karla Jameson)
Oct 31 (Mon)	Guest speaker: Mayor Paul Soglin
Nov 2 (Wed)	Guest speaker on affordable housing development: Tom Landgraf
Nov 7 (Mon)	Guest speaker on the lender's side of affordable housing: Karyn Knaack
Nov 9 (Wed)	Class devoted to work on essay
Nov 14 (Mon)	STUDENT PRESENTATIONS
Nov 16 (Wed)	STUDENT PRESENTATIONS & Wrap-up for Quiz 2
Nov 21 (Mon)	QUIZ 2
Nov 23 (Wed):	No class - THANKSGIVING
Nov 28 (Mon)	International real estate mortgage lending
Nov 30 (Wed)	International real estate mortgage lending
Dec 2 (Fri)	Big event – MANDATORY – Friday 4:30PM-7PM, Plenary Room in Grainger
Dec 5 (Mon)	Guest speaker on "Corporate Citizen": Tom McCahill
Dec 7 (Wed)	Guest speaker on "Municipal Bonds": Phil Letendre
Dec 12 (Mon)	Wrap-up
Dec 14 (Wed)	Wrap-up & QUIZ 3