

Demand and supply for housing

The determination of prices in local and regional housing markets is a classic example of microeconomics in action! We are seeing the interaction between buyer and seller with prices being offered and agreed before a final transaction is made. In this section we focus on the demand and supply side factors that determine the value of properties in a market.

Each housing transaction (deal) depends on

- (a) The price that the seller is willing to agree for their property with the prospective buyer
- (b) The actual price that the buyer is willing and able to pay.

Buyers place offers for a property that the seller can either accept or reject

Law of demand and supply

The law of supply and demand defines the effect that the availability of a particular product and demand for that product has on price. The law defines the price structure.

- If supply is less and demand is high, the price will be high.
- If supply is high and demand is low, the price will be low.

Steps in housing development process

- 1) Initiate the process; organize a housing task force.
- 2) Find out the major housing problems faced by the community, and to set some goals to achieve.
- 3) Develop a community housing profile including estimates of supply and demand.
- 4) Assess local housing needs; analyze the data collected in step-3 in light of community housing standards and goals.
- 5) Set public policy goals and objectives.
- 6) Prepare housing strategies and housing action plans.
- 7) Implement, monitor and evaluate your progress.

A Sellers' Market

When the market demand for properties in a particular area is high and when there is a shortage of good quality properties (i.e. supply is scarce) then the balance of power in the market shifts towards the seller. This is because there is likely to be excess demand in the market for good properties. Sellers can wait for offers on their property to reach (or exceed) their minimum selling price.

A Buyers' Market

Conversely when demand both for new and older housing is weak and when there is a glut of properties available on the market, then the power switches to potential buyers. They have a much wider choice of housing available and they should be able to negotiate a price that is lower than the published price.