

# Chapter 1

## **INTRODUCTION TO REAL ESTATE**



# **I. CALIFORNIA'S REAL ESTATE MARKET**

# A. California Department of Real Estate (DRE)

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- 1 Each state has its own real estate licensing laws.
  - [www.dre.ca.gov](http://www.dre.ca.gov)
  - California Department of Real Estate
  - a leader in US real estate administration

# A. California Department of Real Estate (DRE)

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- Online facility to:
  - acquire test schedules
  - salespersons and broker license renewals
  - file mailing address changes
  - check test results
  - salesperson changes of employing broker
  - continuing education extensions/exemptions

# B. High Cost of Real Estate

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1. California's remarkable expansion due to:
  - a) high technology and biotechnology
  - b) foreign trade
  - c) tourism and entertainment
  - d) agriculture
  - e) professional services
  
2. A home is often the largest and most expensive purchase a person will make

# B. High Cost of Real Estate

In a word:

## DEMOGRAPHICS

- High birth rate
- Immigration and migration

### WHAT'S HAPPENING IN CALIFORNIA

One factor driving the housing affordability crisis in California is the growth in population. Herewith some facts and figures about our state:

California has the 5<sup>th</sup> largest economy in the world, larger than that of France, and we're closing in on #4, the United Kingdom.

California has a population of roughly 35,000,000. Put another way, 1 of every 7 people living in the United States lives in California.

Based on information presented at the 2001 Napa City Economic Summit, California's population is expected to increase by 6,000,000 every decade over the next 40 years. By 2040, California is expected to have a population of close to 60,000,000.

Where does this growth come from? In California, the annual population change is driven by:

|          |  |
|----------|--|
| 525,000  | Births   |
| 300,000  | Net Immigration (foreign) and Migration (domestic) |
| -225,000 | Deaths   |
| 600,000  | Annual Increase                                    |

If you think the housing affordability crisis is serious now, just wait a few years. You can stop development, and you might even be able to reduce immigration, but you can't stop the growth from the birth rate.

# C. Real Estate: A Profitable Profession

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## 1. Broker's Commission

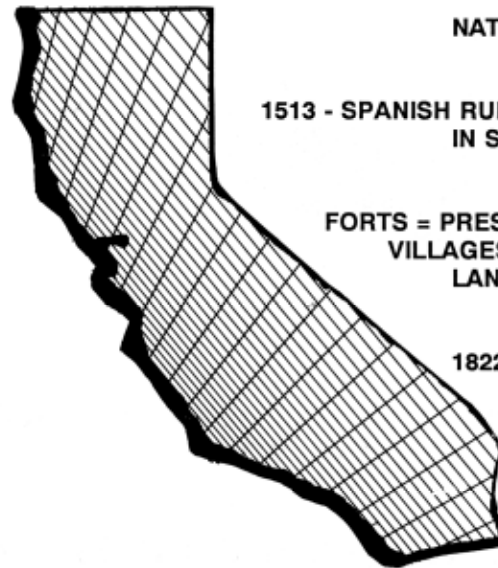
- a. Are always fully negotiable.
- b. Usually around 5-6% (raw land or business opportunity around 10%)
- c. Requires a person who is helpful, ambitious, computer-literate, and willing to work
- d. Broker responsible for paying his or her salespeople their commissions



## **II. HISTORICAL INFLUENCE**

# A. California's Colorful History

## CALIFORNIA REAL ESTATE HISTORY



NATIVE AMERICAN INDIANS

1513 - SPANISH RULE - BALBOA LANDED  
IN SAN DIEGO

FORTS = PRESIDIOS  
VILLAGES = PUEBLOS  
LAND GRANTS = RANCHOS

1822 - MEXICAN RULE

1848 - (U.S. TERRITORY) TREATY OF GUADALUPE HIDALGO

SEPTEMBER 9, 1850 - CALIFORNIA STATEHOOD

1917 - 1st REAL ESTATE LICENSING LAW

1919 - NEW LICENSING LAW RULED CONSTITUTIONAL

# Spanish Rule

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1. In 1769 began famous mission system along **El Camino Real**
2. Established **presidios** (fortified trading posts) at San Diego, San Francisco and Monterey
3. Established first **pueblos** (cities) at Los Angeles and San Jose

# Mexican Rule - Early 1800s

# Territory of U.S. -- Treaty of Guadalupe Hidalgo (1848)

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1. California became a possession of the U.S with the purchase of 500,000 sq. mi. (incl. what today would include NV, UT, NM, AZ and CA)
2. John Sutter discovered gold
3. Gold rush brought thousands to California

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- Full California Statehood

September 9, 1850

- Since then, our State's population has increased steadily to where now, it comprises 14.5% of the US population (1 of 7)

# California passed the 1st U.S. real estate licensing law in 1917

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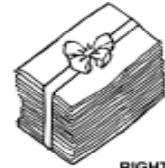
1. 1917 law ruled unconstitutional
2. 1919 Real Estate Act upheld by State Supreme Court

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# **III. REAL AND PERSONAL PROPERTY**

# A. Ownership is a Bundle of Rights

## BUNDLE OF RIGHTS



RIGHT TO POSSESSION  
RIGHT TO ENJOY  
RIGHT TO CONTROL  
RIGHT TO DISPOSITION

### 1. Possession

right to occupy/rent/restrict access

### 2. Enjoyment

peace & quiet from past owners, et. al

### 3. Control

change or keep the property the way you like it

### 4. Disposition

right to transfer all or part of property at your sole discretion

By adding one 'stick' to the next, into a bundle, you progress to complete property ownership

# Property Types

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- Real property – immovable, by law
- Personal Property – movable (formerly called “chattel” or “chattel real”)

# B. Real Property

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(Immovable) is transferred by deed and consists of:

- Land - (above and below the surface) including **extended rights**: littoral and riparian rights, minerals, oil and gas rights, and airspace (such as condominiums)
- Anything **permanently attached or affixed** to the land (“Improvements”)
- Anything **incidental or appurtenant** to the land (shares of stock in water company, easements)
- That which is immovable by law (attached by roots—established crops, vegetation, landscaping)

# Extension of Rights

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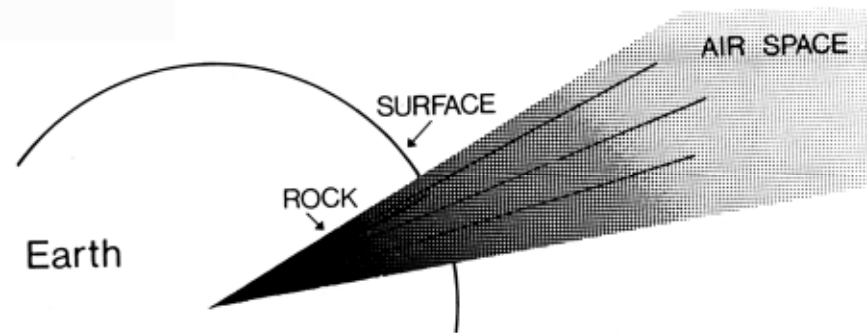
- Mineral Rights – all that is beneath the surface of the earth
  - Riparian Rights – right to reasonable use of moving water (rivers and streams) on or under
    - Allocation (taking by the State) of surplus underground water for beneficial use of non-owners
    - Appropriation is another term for Allocation
    - Percolating Water – underground water not in a defined channel
    - Potable Water – water suitable for drinking
- Can be severed by condemnation or prescription

# Extension of Rights

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- Littoral Rights -- right to reasonable use of non-flowing water (oceans/lakes); docks, piers
- Surface Water Rights – prohibit diversion of runoff from rain to the property of another
  - Unless confined to a channel (e.g., river or stream)

## REAL PROPERTY IS



1. **LAND** - INCLUDING SPACE ABOVE AND SUBSTANCES BELOW
2. ANYTHING **PERMANENTLY ATTACHED** - BUILDINGS
3. ANYTHING **INCIDENTAL** OR **APPURTENANT** TO LAND - FIXTURES
4. THAT WHICH IS **IMMOVABLE BY LAW**

# C. Personal Property

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(Movable) is transferred by "Bill of Sale" and consists of:

1. Anything not defined as real property
2. Minerals, oil, natural gas, once extracted
3. **Emblements** - growing crops cultivated annually (fruits and nuts) on leased land (fruit of one's labor); the trees/plants from which crops are harvested are real property
4. Can be tangible or intangible (leases, stocks and bonds, trust deeds)

## D. Fixtures

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- ⇒ Personal property attached to the land or buildings so as to become real property

## TESTS OF A FIXTURE



5 tests:

1. Method of attachment
2. Adaptability
3. Relationship of the parties
4. Intention
5. Agreement

**THINK**  
**M.A.R.I.A**

# Method of Attachment

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- If it can be unplugged – personal property
- If attached by cement, nails, screws or plumbing – real property
  - carpeting (real)
  - area rugs (personal)

# Adaptability

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- Ordinary use in conjunction with the land
  - If well adapted for land or building, likely to be a fixture

# Relationship of Parties

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- Use language in contract to delineate what stays with seller and what goes to the buyer
  - best to obtain a bill of sale for anything that will transfer to the buyer as personal property

# Intention

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- If the ultimate plan is removal, do not attach it to the property
  - or if it needs to be attached to be used, do it in a way that its removal can be accomplished without damaging the property

# Agreement

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- Whenever there is even a shred of doubt – put it in writing
  - Real estate purchase agreements provide for these kinds of provisions

# E. Trade Fixtures

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- Always Personal Property
- Removable – exception to the rule
- Equipment used in the normal course of business which is considered personal property as long as real property is left in the same condition as found (i.e., any removal damages can be repaired): shelving, racks, refrigeration units, etc.
- Transferred by “Bill of Sale”



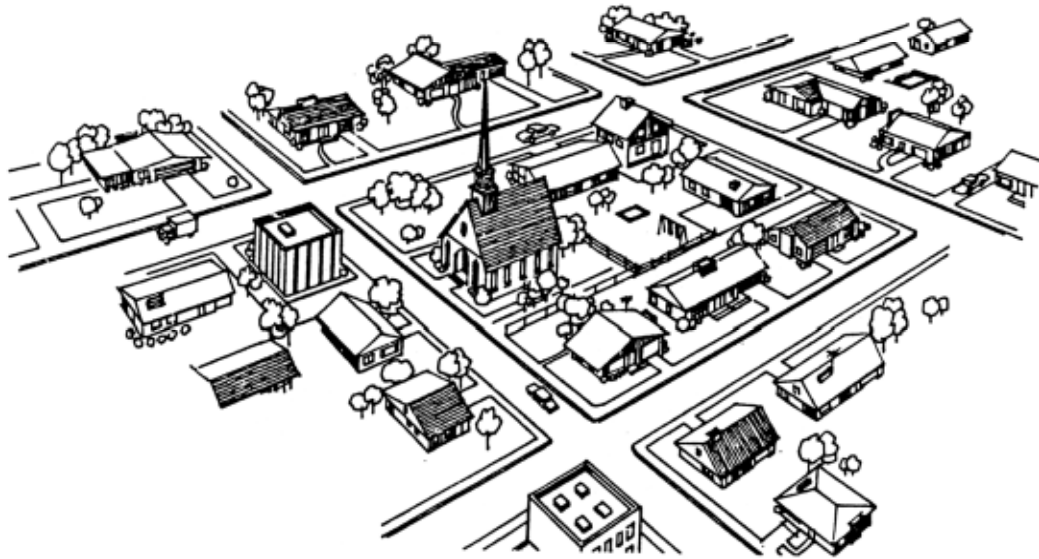
## **IV. METHODS OF LAND DESCRIPTION**

# Common Address

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- Doesn't give enough information to properly describe or locate a property

# THE THREE LEGAL TYPES OF LAND DESCRIPTION



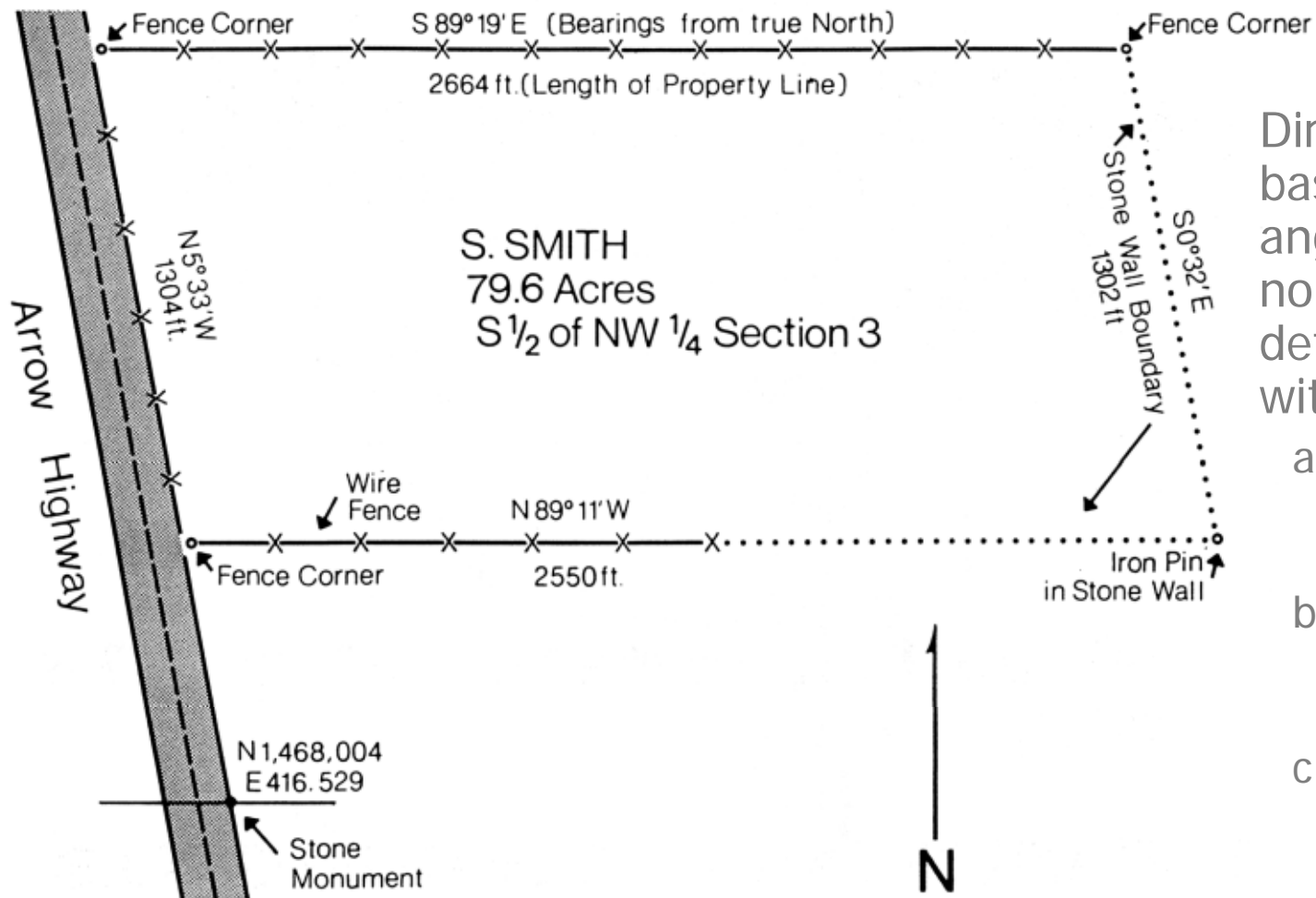
- 1. METES AND BOUNDS (SURVEYOR'S MAP)**
- 2. SECTIONS AND TOWNSHIPS (U.S. GOVERNMENT SURVEY)**
- 3. LOTS, BLOCKS AND TRACTS (RECORDED SUBDIVISION)**

# A. Metes and Bounds (surveyor's map)

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- The method of identifying property in relationship to its boundaries, distances and angles from a given starting point
- Complicated description that surveyors use
- **Metes** - a measure of distance between points (feet, yards, rods and chains)
- **Bounds** - starting points, ending points and markers in between used to describe boundaries.
  - a. natural bounds (rivers, trees, rocks)
  - b. man-made bounds (canals, roads, monuments, stakes or bench marks); one pitfall is that over time, these things can change/move

# Simple Surveyor's Report



Directions are based upon angles from a north-south line determined with compass.

- 360** degrees (°) on a compass
- 60** minutes (') in a degree
- 60** seconds (") in a minute

## B. Sections and Townships (U.S. Government Survey)

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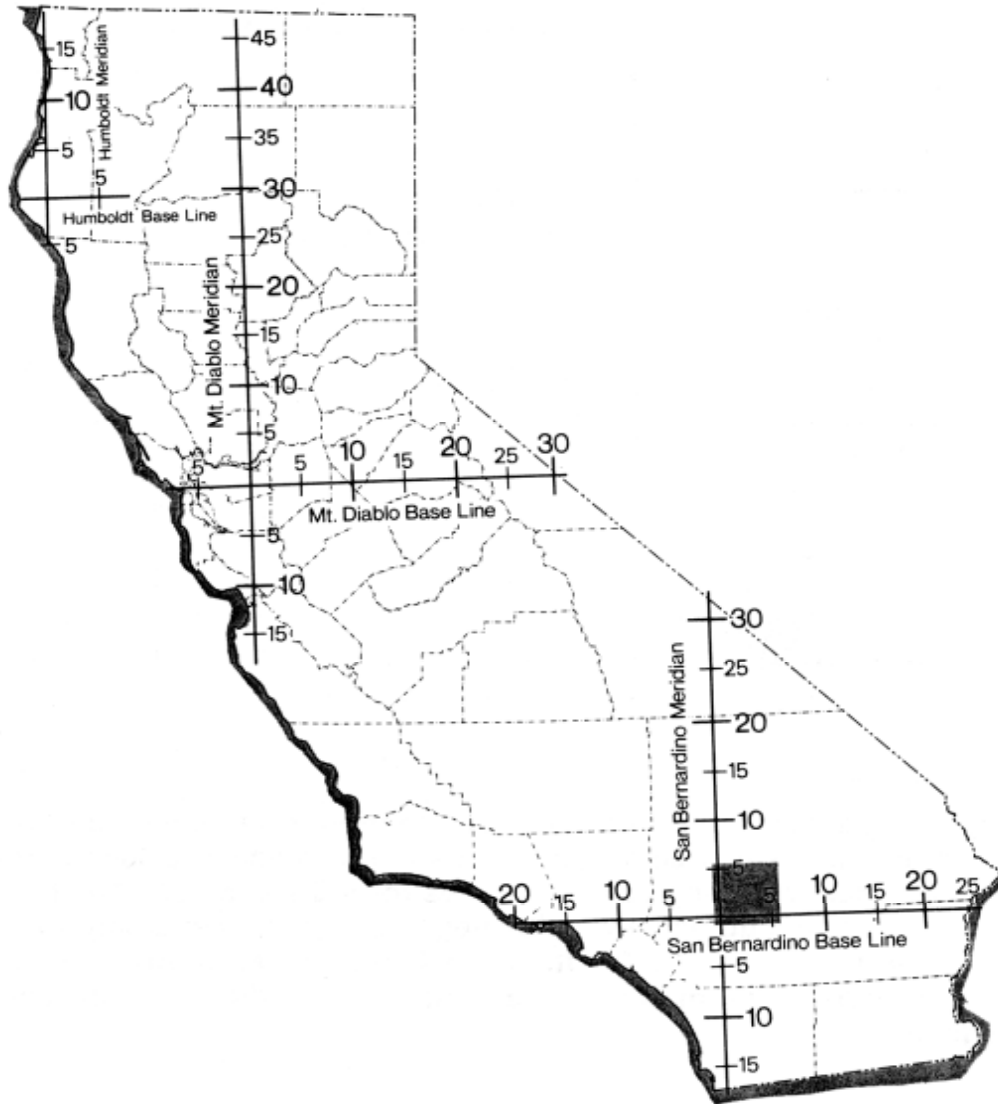
- Identifies all (public) land by sections and townships arrived upon by dividing the state by base line and meridian intersections

# The three starting points in California are:

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- **Humboldt Base Line and Meridian**
- **Mt. Diablo Base Line and Meridian**
- **San Bernardino Base Line and Meridian**

# CALIFORNIA BASE LINES AND MERIDIANS



# Sections and Townships

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1. **Base Lines** - run east west from a given starting point and are marked by six mile increments called Ranges
2. **Meridian Lines** - run north-south from a given starting point and are marked by six mile increments called Tiers or Township Lines, the resulting grid of squares divides the state into Townships, each containing 36 square miles (six miles by six miles)

# Sections and Townships

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- **Tier Lines**

- East-West lines running parallel to base lines

- **Range Lines**

- North-South lines running parallel to meridian lines

- Intersection of Tier and Range lines creates **Townships** – 6 mile square of land (36 sq. mi.)

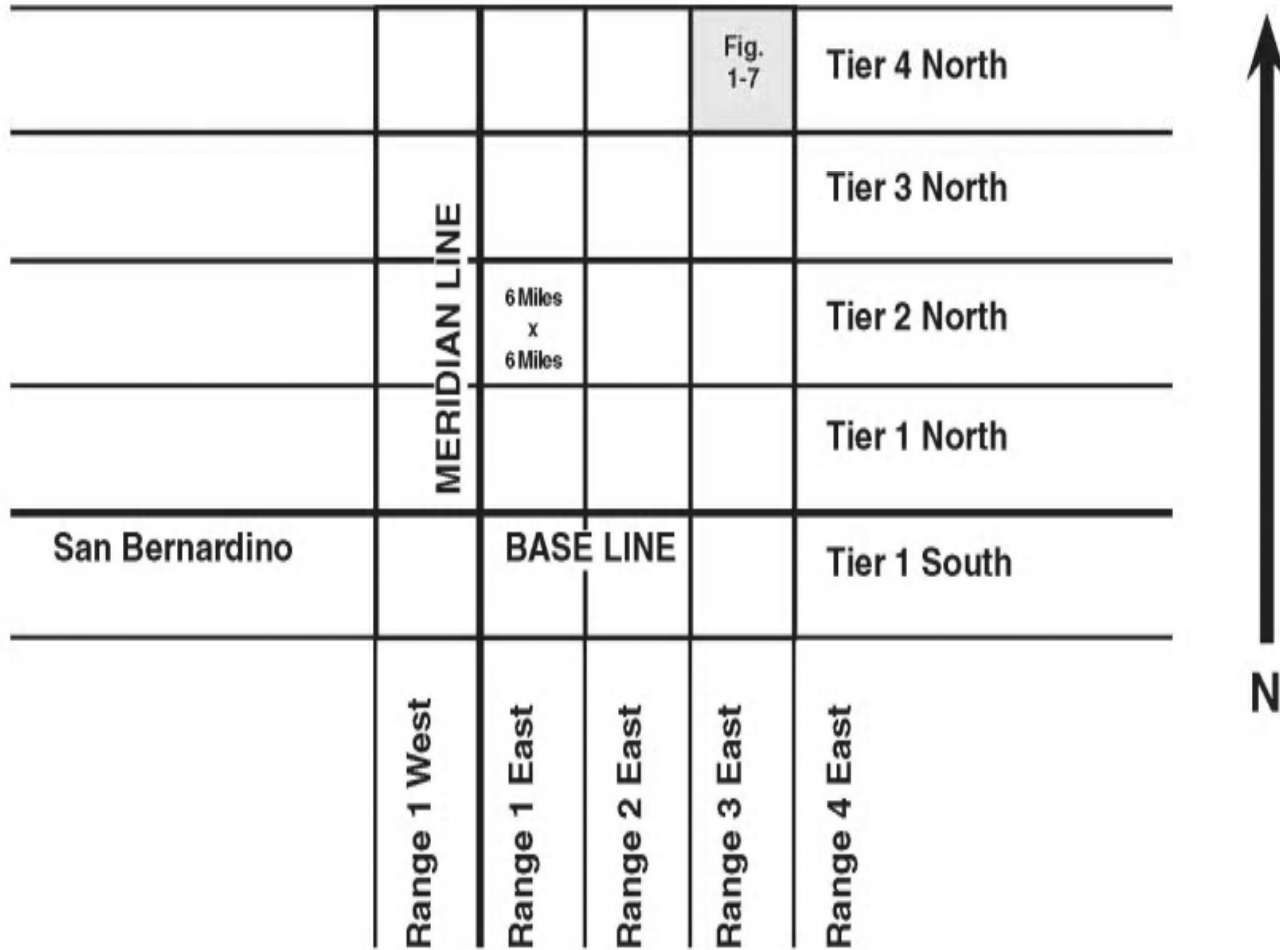
# Sections and Townships

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Each **Township** is divided into 36 mile squares called Sections which contain 640 acres.

- a. Sections are numbered 1 through 36
- b. number sequence starts in the upper right-hand (**North-West**) corner of the township
- c. sequence proceeds across to the left to 6, down to 7, across to the right to 12, down to 13, etc.
- d. sections can be divided into halves and quarters and each of these can be halved and quartered (and each half and quarter can be halved and quartered, etc.) until the property can be properly described

# Tiers, Ranges, and Townships



Tier 4N, R 3E San Bernadino Base Line and Meridian

# Township and Sections

|    |    |    |    |    |    |
|----|----|----|----|----|----|
| 6  | 5  | 4  | 3  | 2  | 1  |
| 7  | 8  | 9  | 10 | 11 | 12 |
| 18 | 17 | 16 | 15 | 14 | 13 |
| 19 | 20 | 21 | 22 | 23 | 24 |
| 30 | 29 | 28 | 27 | 26 | 25 |
| 31 | 32 | 33 | 34 | 35 | 36 |

# Township and Sections

SW $\frac{1}{4}$  of NW $\frac{1}{4}$  of Section 11 = 40 acres  
 40 acres x \$800/acre = \$32,000

NE $\frac{1}{4}$  of section 12 = 640 acres x  $\frac{1}{4}$  = 160 acres  
 S $\frac{1}{2}$  of NE $\frac{1}{4}$  of section 12 = 160 acres x  $\frac{1}{2}$  = 80 acres  
 80 acres x \$500/acre = \$40,000  
 \$40,000 - \$32,000 = **\$8,000 difference**

*: backwards and multiply the denominators.*



|  |  |                                      |                                      |   |                       |                       |                       |                       |
|--|--|--------------------------------------|--------------------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|
| NORTHWEST<br>QUARTER<br>(NW $\frac{1}{4}$ )<br>160 ACRES                                   |  | (NW $\frac{1}{4}$ NE $\frac{1}{4}$ ) | (NE $\frac{1}{4}$ NE $\frac{1}{4}$ ) |   |                       |                       |                       |                       |
|  |  | (SW $\frac{1}{4}$ NE $\frac{1}{4}$ ) | (SE $\frac{1}{4}$ NE $\frac{1}{4}$ ) |   |                       |                       |                       |                       |
| WEST HALF<br>OF<br>SOUTHWEST<br>QUARTER<br>(W $\frac{1}{2}$ SW $\frac{1}{4}$ )<br>80 Acres | EAST HALF<br>OF<br>SOUTHWEST<br>QUARTER<br>(E $\frac{1}{2}$ SW $\frac{1}{4}$ )<br>80 Acres | 40<br>Acres                          | 10 Acres                             | <table border="1"> <tr> <td>2 <math>\frac{1}{2}</math> Acres</td> <td>2 <math>\frac{1}{2}</math> Acres</td> </tr> <tr> <td>2 <math>\frac{1}{2}</math> Acres</td> <td>2 <math>\frac{1}{2}</math> Acres</td> </tr> </table> | 2 $\frac{1}{2}$ Acres | 2 $\frac{1}{2}$ Acres | 2 $\frac{1}{2}$ Acres | 2 $\frac{1}{2}$ Acres |
|  |  |                                      | 2 $\frac{1}{2}$ Acres                | 2 $\frac{1}{2}$ Acres   |                       |                       |                       |                       |
| 2 $\frac{1}{2}$ Acres  | 2 $\frac{1}{2}$ Acres  |                                      |                                      |   |                       |                       |                       |                       |
| 10 Acres   | 10 Acres   |                                      |                                      |   |                       |                       |                       |                       |
|  |  | 40 Acres                             | 40 Acres                             |   |                       |                       |                       |                       |

# C. Lots, Blocks, and Tracts (Recorded Subdivision)

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- Describes property according to an engineer's map which is approved by the Department of Real Estate and the local city or county and then recorded
  
- A subdivision map is also referred to as a **PLAT MAP**
  1. **Tract** - the name assigned to an individual subdivision map (it is now generally a number, but in the past was often a word or phrase)
  2. **Blocks** - individually numbered sections of a tract separated by roads
  3. **Lots** - individually numbered sections of a block

# LOT AND BLOCK SYSTEM

(Recorded Subdivision Map)



LOT 22 in BLOCK 21 of Short Line Beach Subdivision No. 2 as per map recorded in Book 4 Page 42 of Maps, in the office of the County Recorder of Los Angeles County.

# REFERENCE TABLE

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One **ACRE** is 43,560 square feet, 4840 square yards.

One **SQUARE ACRE** is 208.71 feet on each side, but this number is generally rounded off to 209 feet.

One **MILE** is 5,280 feet long.

One **SQUARE MILE** contains 640 acres.

One **SECTION** is one mile square, containing 640 acres

One **TOWNSHIP** (standard) is six miles square (36 square miles).

One **COMMERCIAL ACRE** is an acre minus any required public dedications.

One **ROD** is 16.5 feet long (5.5 yards). There are 4 rods, or 66 feet, to one chain, and 320 rods to a mile.

# Chapter 1 - Summary

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- California was purchased by the U.S. from Mexico as part of the Treaty of Guadalupe Hidalgo
- DRE
- Real Property (immovable)
  - Bundle of Rights
- Personal Property (movable)
- Fixtures – M.A.R.I.A. / Trade Fixtures
- Metes & Bounds
- Sections and Townships
- Lots, Blocks & Tracts

# HOMEWORK

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- Read Chapter 2
- Study for Chapter 1 Quiz
- Visit and navigate the DRE website
- Pick an article covering any aspect of Real Estate and be prepared to give a two-sentence oral report (book title, author's name, and something useful that you've learned from reading that article)
- See you next Time!