

The Real Estate Learner's Guide

The Real Estate Learner's Guide:

Concepts, Definitions and Terms

By

Ndubisi Onwuanyi

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To all learners who seek a career in land, property
and valuation hoping, that they will find in this book,
a useful study companion.

TABLE OF CONTENTS

List of Figures..... xiii

List of Tables xiv

Preface xv

Aim of the Book

Structure of the Book

Introduction 1

Part 1: Concepts and Definitions

Section A..... 8

Land

Preamble

The concept of land

The definitions of land

-agriculture

-economics

-geography

-law

The role of land in economics and cognate fields

-land in economics

-land in land economy

-land in real estate investment

-land in real estate studies

Section B..... 16

Land Use

Preamble

Amenity land

Land policy

Land rights

Land use changes and their effects

Land use planning

Open space
 Rural area and rural land
 Rural land management
 Rural land use
 Urban area
 Urban forest
 Urban growth
 Urban land use(s)
 Urbanisation
Bibliography
Further Reading

Section C..... 27

Land Management

Preamble

Capital expenditure
 Capital outlay
 Cash flow
 Commercial real estate (*or business property*)
 Compounding and discounting
 Compound interest and compounding
 Compound interest *versus* simple interest
 Derived demand
 Discounted cash flow
 Discount factor
 Discounting
 Discount rate
 Double sinking funds
 Economic cycle
 Economic rent
 Estate(s) surveyor
 Facility management
 Growth, inflation and rental value (*why rents may keep pace with inflation*)
 Home ownership, housing and the economy
 House ownership *versus* house renting
 Housing and mortgage lending
 Housing market (lettings)
 Housing market (sales)
 Housing policy
 Interest (interest rate)

Investment appraisal
Investment interest
Investment property demand and supply
Land investment
Land management
Land markets
Land markets (formal)
Land markets (informal)
Land markets in the economy
Land ownership motives
Land value
Lettable property demand and supply (commercial)
Lettable property demand and supply (residential)
Market cycle
Market value
Marriage value
Natural vacancy
Net present value
Premium
Price
Profit rent
Property data
Property industry
Property investment
Property investment interests
Property management
Property market
Property market characteristics
Property market classifications
Property market data
Property market imperfections
Property market knowledge
Property market operation
Property price *versus* property value
Property value (*in annual terms*)
Property value (*in capital terms*)
Real estate economics
Real estate in the economy
Recoupment of capital
Rent
Rental growth (*see growth, inflation and rental value*)

Rent, rental value and full rental value	
Rent theory	
Rent void(s)	
Vacancies (completed, but unlet and unsold property)	
Valuation	
Valuation and economics	
Valuation basis, purpose and method	
Valuation purposes	
Valuation formulae	
Valuation methods	
Valuation purpose, basis and method	
Valuation theory	
Value	
Valuer	
Year's Purchase (or <i>YP</i>)	
Yield	
- <i>all risks yield</i>	
- <i>internal rate of return</i>	
- <i>equated yield</i>	
- <i>equivalent yield</i>	
- <i>return on investment</i>	
- <i>true net yield</i>	
<i>Bibliography</i>	
<i>Further Reading</i>	

Section D..... 119

Land Development

Preamble

Development appraisal	
Development (of land)	
Development control	
Development cycle	
Development decision	
Development density	
Development land	
Development period	
Development profit	
Development risk	
Development value	
Development value (gross)	
Development value (net)	

Development viability
 Discounted cash flow analysis
 Economic life of buildings
 Infrastructure
 Infrastructure (green)
 Infrastructure (grey)
 Latent value
 Obsolescence (economic)
 Obsolescence (functional)
 Obsolescence (physical)
 Planning authority
 Planning process
 Residual (the concept)
 Residual valuation
 Sensitivity analysis
 Site value
 Site value and building density
 Site value *versus* market value
Bibliography
Further Reading

Section E 143

Land Investment and the Capital Market

Preamble

Capital (*investment capital*)
 Capital investment
 Capital market definition
 Capital market opportunities
 Capital-property markets: comparative characteristics
 Capital-property market differences
 Capital-property market relationship
 Equity-property investments compared

Bibliography

Further Reading

Section F 153

Land and the Sustainability Concept

Preamble

Built environment
 Sustainable built environments
 Sustainable land development

Sustainable land management
-sustainable and regular real estate
-features of sustainable real estate
-benefits of sustainable real estate
-implications for valuation
Sustainable land use
Bibliography
Further Reading

Part 2: Terms

Terms in English..... 166
Terms in Latin 184

LIST OF FIGURES

Figure 1: The Land Development Cycle

Figure 2: Development Input Relationships

Figure 3: The Development Viability Equation

LIST OF TABLES

Table 1: Urban Land Uses

Table 2: Accumulated Interest and Discounted Interest

Table 3: Proof of Capital Recoupment in Methods A and B

Table 4: Between Owning and Renting a House

Table 5: “Perfection” in the Real Estate Market

Table 6: The Main Valuation Formulae and their Variants

Table 7: Formulae Relationships

Table 8: Rationale of Traditional Valuation Methods

Table 9: Preparing a Land Development Budget

Table 10: Equated Yield with Allowance for Income Growth

Table 11a: Equivalent Yield Calculation using Discounted Cash Flow (7.5% interest rate)

Table 11b: Equivalent Yield Calculation using Discounted Cash Flow (8% interest rate)

Table 12: Loan Stock and Equity: Similarities and Differences

Table 13: Comparing Property and Equity Investments

Table 14: Relative “Perfection” of the Capital and Real Estate Markets

Table 15: Issues in Sustainable Construction

Table 16: Sustainable Real Estate Development

Table 17: Potential Stakeholder Benefits from Sustainable Real Estate

PREFACE

The term *real estate* is used in three main ways. Firstly, it refers to a profession whose members deal with investment and management issues in land and improvements of land. Secondly, it describes investment opportunities in land, both proposed and actualised. Thirdly, and lastly, it denotes the field of study, specialism or activity. All three dimensions are featured in this book. Although they all are interwoven, the first two provide the *raison d'etre* for the third, the main concern here. Thus, the book is specifically about training in *the field* for entrance to *the profession* whose services are geared towards the optimisation of value from land use generally, and *investment opportunities* in land and improvements of land, particularly.

Professions and *occupations* are essential to modern society. Their presence makes possible the acquisition and practicalisation of skills and knowledge, which are critical to a functional society. The means of livelihood which they offer is a determinant of the quality of life. Similarly, the workforce which they constitute is essential to economic development. In sum, these groups, by their presence and activities, make undeniable and invaluable contributions to the progress of nations and humanity, in general. By nature, the two terms differ, and therefore, are not interchangeable. Between profession and occupation there exists at least one great similarity as well as one great difference. The similarity is that both evolve from the needs of society. The difference is that every profession may qualify as an occupation, but not every occupation qualifies as a profession. A profession is a specialised occupation, requiring formal training, testing and the certification of competency; formal registration of its members and monitoring of the membership for adherence to standards and rules of conduct. Included is the exercise of disciplinary powers when necessary by its legally empowered leadership. Non-specialised occupations include trades, artisanship, and the like. These do not have the organisational structure nor the philosophical basis of the former which essentially are learned groups, although they engage in advancing the interests of their members particularly where formally organised as trade unions. Prominent amongst specialised occupations are engineering, medicine, surveying, teaching and the knowledge industry as a whole. The relevance of professions may be judged in three main ways. "First, by the observed need

for their services. Second, by their socio-economic impact since they exist to improve the human condition. Lastly, by the influence which they exert” (Onwuanyị, 2024). Such influence usually extends beyond the local environment as a consequence of interactions with similar bodies across the world.

It is not inapt to say that all professions are built upon precepts which not only guide the training of its members or practitioners, but also, the delivery of services upon the completion of training. Precepts are the life force of professions. Their evolution from the early days of simplicity was unavoidably influenced by interactions with other professions operating within society. The real estate profession is one such profession whose development has been so influenced. In the case of the United Kingdom, the profession is personified in the Royal Institution of Chartered Surveyors (RICS) which originated in 1868 as the Surveyor's Institution and whose membership is trained in estate management and valuation functions. Brown (1969) reveals this status by the following statement:

“Estate management is concerned with land use and, more particularly, with the purchase, measurement, sale, valuation, management and development of land, buildings and property. Under this broad canopy, practitioners specialise in one or perhaps more branches, and according to their specialty, may be known as land agents, auctioneers, housing managers, town planners or valuation, building, land, mining or quantity surveyors”. Furthermore, “There is, nevertheless a large body of basic knowledge common to all...and there is a high degree of interrelationship and interdependence”¹ (Brown, 1969: p.148).

These mentioned specialisations all deal with land, justifying the common appellation, *“the profession of the land”*, land being the essence of the real estate profession. In addition, Brown’s (1969) assertion that *“There is, nevertheless a large body of basic knowledge common to all and there is a high degree of interrelationship and interdependence”* (Brown, 1969: p.148) confirms that there are shared concepts definitions and terms. Interactions between these specialisations in real estate are essential to the delivery of desirable investment outcomes by members of the profession. This makes established concepts, definitions and terms essential both to training and practice in the field.

¹ Brown, R.J. (1969). Estate management. In: *A guide to careers*. The New Universal Library. International Learning Systems Corporation Limited. London: Oxford University Press.

Aim of the Book

The aim is to provide study assistance to undergraduates of academic programmes in real estate. These courses now bear varying, but connected, titles such as real estate management, property studies, construction and real estate, estate surveying and valuation and real estate studies. They all require knowledge of the principles which govern profitable and sustainable investment in land. Also, necessary is knowledge of theoretical and applied concepts and terminology which derive from diverse sources. Such knowledge is important to guiding land investors and taking decisions aimed at delivering optimal investment outcomes. A miscellany of information is involved due to the wide scope of real estate as a field of study, this being reflective of the socio-economic importance of land and its attendant extensive and pervasive impact on people, their activities and society, more broadly. The information in this book originates from professions, specialisms and fields of learning such as accountancy, building and construction, economics, finance, geography and the environment, law, quantity surveying, urban planning, sustainability science and valuation. This wide range suggests that a compendium, as provided by this book, would be useful to learners in the field. Therefore, the book creates easy access to such diverse information by assembling in one volume an array of concepts, definitions and terms. It provides for learners, study material, a reference source, and also, the opportunity of expanding their knowledge base through the references provided for further reading.

There are many valuation examples in the book. Valuations are expressed in units of currency. The unit of currency used here is the Nigerian *Naira*. It is represented by the symbol (₦). Each unit of the Naira comprises 100 kobo which is written as *k*.

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Structure of the Book

This is in two main parts. Part 1 deals with concepts and definitions. This is further divided into six sections concerning the things done *on* land, *to* land and *with* land. Section A is on Land. It defines the concept of land in general, and then, from the perspectives of the fields of learning and activity to which land is most closely related. These are agriculture, economics, geography and law. Section B is on Land Use. This is followed by Section C where the topic is Land Management. Section D is on Land Development. After this comes Section E on Land Investment and the Capital Market. Finally, Section E is on Land Investment and the Sustainability Concept. Each section starts with a short preamble and ends with a bibliography and references for further reading. The second part of the book identifies and explains common terms used, both English and Latin, in the real estate field.

INTRODUCTION

This book is about real estate which, as mentioned, is a field of study, an investment outlet, as well as a profession. There is an existent global investment preference for real estate principally due to its proven role in the creation and preservation of wealth. This highlights not only the importance of the real estate profession, but also, real estate as a field of study. The investment importance of real estate is founded on the status of land as a key, but finite resource. Additionally, the mobility of land amongst uses, its critical role in human activities and the satisfaction of human needs, continually drives investment activity, producing a socio-economic impact which, as mentioned, is extensive and pervasive.

The ever-increasing level of activity in land investment has impacted the real estate profession and real estate studies in the following ways. In the first place, by the attainment of global investment pre-eminence. In addition, it has highlighted, and continues to highlight, the fundamental role of the profession in facilitating the creation of wealth. Furthermore, it has drawn greater attention to real estate as a field of learning and expertise. The book discusses issues of vital relevance to learners who seek a career in the profession. The issues are foundational because they involve concepts, definitions and terms which are essential to learning, and also, relevant to practice.

Real Estate Studies

As a field of study, real estate is a specialism of the wide field of economics. The latter is concerned with choice-making regarding activities which create or can create needed value for human sustenance out of scarce, and therefore, costly input. These activities are guided primarily by the principles of *cost*, *price*, *profit* and *value* which are amongst the most common concepts in economics. Cost is an input to price whilst price is a determinant of profit, and also, a guide to value. These concepts feature in the production of goods and the provision of services. Also, in the sale and purchase of goods and services. Together, they demonstrate the rationality which defines economics and economic activity. These conceptual connections provide the basis for the rationalisation and practicalisation of economic activity.

The main route to becoming a professional real estate practitioner is through real estate studies. These are undertaken at the tertiary level and followed by certification for practice Training programmes in real estate now go by a variety of titles. As mentioned, these include real estate management, property studies, construction and real estate, estate surveying and valuation and real estate studies. The common connection here is that the programmes involve *real estate economics*. This requires having knowledge of *urban economics*, *geographical or spatial economics* and *land economics*. Land economics is important because land is needed for many purposes but its scarcity creates challenges which must be addressed through rational decision-making. Geographical economics is relevant because land has a spatial dimension which, because of value implications, must be considered in land use decisions. Urban economics is essential because the real estate industry (including its market) is principally urban in character and more challenges arise in urban land use as a result of the concentration of people and economic activities. One consequence is that the price of urban land tends to affect the pattern of urban land use. Two other common concepts are *rent* and *yield* (or return). In addition, there also are concepts borrowed from other professions, fields and specialties due to their relevance to real estate studies and the real estate profession.

The terms *real estate* and *landed property* are interchangeably used. Both describe land and the improvements of a permanent nature made upon land for economic reasons. The connection between the two is *land* which, understandably, is the core element in every piece or parcel of real estate or landed property. As mentioned, land is desirable, useful and limited in quantity. These features combine to make land an asset of high value and an article of trade. Therefore, it may be said that “*because land is a key resource, everyone desires it; because land is useful, everyone can benefit from it; because it is scarce, not everyone possesses it, and because it is exchangeable, anyone may aspire to its ownership, subject to price.*”

The market in land is sustained by the principle of derived demand. This suggests that more land will be demanded the greater the profitability of the economic activities which take place, or are planned to take place, on it. A prosperous economy where the demand for goods and services is on the rise will produce also a growing demand for more land as producers seek to expand their activities in pursuit of more profit. This principle ties the market for land and landed property to the economy, buttressing the economic nature of real estate investment.

The Real Estate Profession

Professions exist because they offer services of which society is in need, these needs becoming evident as society evolves (Onwuanyi, 2024). The real estate profession is just one of many, sharing the general characteristics and societal role of professions as stated in the preface to this book. Also, as earlier mentioned, the profession in the UK is personified by the Royal Institution of Chartered Surveyors (RICS). Its long history is reflective of changes which have taken place in the UK society over time. The formation of the institution was *“driven by the rapid development and expansion of the industrialised world; as infrastructure, housing and transport links grew, so did the need for more stringent checks and balances”* (RICS, 2023). Being a part of society whose needs they serve, professions unavoidably impact society. They grow as society grows, adapting and re-adapting to changing requirements and concerns. In the case of the RICS, it has over the years developed a great reputation and become the most influential global body of real estate professionals numbering over 130,000 and operating in virtually every part of the world. The long process of attaining this current status saw the RICS' unification with smaller professional bodies in the UK. This course of unification, which resulted in the creation of a stronger voice for the profession, offers proof that the growth of professions is driven by the changing needs of society.

Land is the essence of the real estate profession, originally known as *estate management* in the United Kingdom. An estate is a parcel of landed property in which rights are permanently held by the proprietor or owner as well as others to whom have been granted legal rights of occupation and use for a limited duration. As mentioned, land is a key resource which possesses the potential to produce rewarding outcomes for the investor and the economy. In the case of the investor, through building wealth at the levels of the individual, household, firm and government. Regarding the economy, land investment creates wealth through the expansion of production capacity, economic output, aggregate incomes and employment levels. These are facilitated in a great measure by a responsive and effective property sector which positively impacts factor prices within the system. This outcome is aided by value-sustaining and value-enhancing professional real estate advice and supervision, particularly accurate property valuations which support optimal investment decisions. In effect, the profession deals with land for the purposes of its sustainable use, development and management, to grow value in terms of income and capital gain with a view to storing wealth and ensuring profitable exchange, if and when exchange becomes necessary.

Due to the centrality of land to the profession, the appellation: *profession of the land* is usually applied to estate management. The real estate manager superintends estates held in land. Management is a process of many activities including maintenance and pricing all aimed at receiving or delivering optimal value. The process involves activities such as measuring, comparing, analysing, valuing, selling, letting, advising, all geared towards estimating, identifying, developing, preserving, enhancing and sustaining value. Management encompasses every act of supervision. Therefore, one of the most important management processes through which land passes is development. Without land development, the stock of real estate cannot increase, neither can obsolescent sites be brought again into profitable use. Thus, land development spurs, and responds to, growth in economic activity by creating value where little was previously existent; and greater value where there has been a decline in the existing use value of an already developed site.

Real estate is an important profession for two main reasons. The first is that land is tied to human existence, making it a key resource and one of the most valuable in society (Brown, 1969). The World Bank (1989: p.87) confirms the important status of land by the statement that: “*in most countries, real estate (including land) accounts for between half and three-quarters of national wealth*”. This statement, according to Onwuanyi (2018) implies that “*it is impossible for countries to create wealth without real estate, or to be wealthy without possessing it*” (Onwuanyi (2018: p.110). Countries cannot create wealth without real estate because real estate is an input to the creation of wealth through the production of goods and services. Having then produced wealth using real estate and become wealthy, countries find that the possession of real estate is an index of wealth, also a reliable base for raising tax revenues. Part of such wealth is held by home owners whose cumulative investments amount to a significant level of total investment within the economy (Duca *et al*, 2021). Real estate creates wealth, stores wealth, enlarges it over the long term and protects wealth from the ravages of inflation. As a consequence, “*global real estate is a more valuable asset class than all stocks, shares and bonds combined*” (Savills World Research, 2017).

The second reason why real estate is an important profession is that the scarce nature of land makes its prudent use and management both necessary and important. This requires special training and certification of people who manage real estate. Consequently, it falls principally to the real estate profession to oversee the economic and value aspects of land use, management and development. It is through professional real estate advice that the potentials of land investment can best be achieved. A crucial aspect

of land management is professional property pricing. If this function is efficiently discharged, the exchange value of property would be at optimal levels. This means that no buyer will pay more nor a seller receive less than the true value of his property. The implication is that property as a factor input will be justly rewarded, facilitating a system of commensurate reward which will extend to other production factors, and thereby, promoting efficiency in the economy. It is worth recalling here that the respective returns to other factor inputs are: *interest* (to *capital*); *wages* (to *labour*); and *profit* (to *enterprise*). If rent (the return to land) is competitively priced, then the chances will be higher for the achievement of optimality across board.

In sum, the real estate profession plays an important role in the economy. It provides goods and services in a vital sector upon which economic growth is much dependent. These goods and services provide benefits which extend across all classes of participating actors in the economy: individuals, businesses, corporations, institutions and government. Collectively, the activities of real estate investment advisers and property investors themselves have a macroeconomic impact which arises from the interdependent relationship between real estate and the economy. At the microeconomic level, the profession's services facilitate and guide the decisions of individuals, households and firms who, on the aggregate, account for a substantial portion of real estate investment in the market economy.

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PART 1

CONCEPTS AND DEFINITIONS

SECTION A

LAND

Preamble

Less than a third of the earth's surface consists of dry land, the remaining part being water bodies. However, the relatively smaller size constituted by land belies its importance. Land has a significance which lies in its status as the base of all human activities. These activities are many and they vary in their impact on people and the environment, of which land is a constituent. Some of these effects are positive whilst others can be negative. The positive impacts include the conservation of land and the optimisation of its value. Where negative, they typically diminish its utility, productivity, and thereby, its value. Essentially, however, land supports all human activities which are critical to existence. It is for this reason that land is, and always will be, valued by humankind.

The concept of land

As a race of terrestrials, living on land is natural to humans because land is a part of nature. These facts of life support the often expressed view that land is a gift of nature. If this is the case, then the gift is one of an inestimable and unending value. This is because the earth's surface, its land and environment, is conducive to the survival of the human species. The earth supports human subsistence through the stages of procreation; nourishment, development and, after death, provides space for interment. The earth's surface is made up of two parts. The first is *terra firma* (or dry land) which is less than a third of the entire surface area. This distinguishes land (dry land) from the second part of the earth's surface (over two-thirds) which is not dry land, but consists of land lying permanently below water.

The concept of land may vary from one society to another. In the case of the Western world where private land rights and land markets have a long history, the importance of land is principally economic in the sense of being a production factor, an article of trade and a store of wealth. In some other societies, as exist in what is usually described as the Global South, there is

an history of communally held land rights. In these principally agrarian societies, the very fact of being tied to communal well-being and survival gives to land an importance which extends beyond the economic dimension to the social, psychological and cultural. These differences in tradition and perspective are also reflections of the importance of land in human society. An instance of this exists in many societies (and emergent states) from previously colonised societies of the Global South. Colonialism permanently impacted the system of communal land ownership by the introduction of private rights and land alienation. This has made possible the emergence of land markets. Nonetheless, cultural perceptions of land in these societies still endure.

In modern societies, access to land and secure land rights are key to obtaining its optimal benefits. This involves putting land to uses which benefit the individual land owner (investor) as well as society, more broadly. This is a necessity for both developed and less developed countries. In the former, the benefits of access to land are seen in higher individual and household wealth, a rising gross domestic product, higher tax revenues from land investments and increasing national wealth facilitated by a more productive economy. In less developed societies, access to land is particularly important to lifting people out of poverty and improving human and economic development. The International Fund for Agricultural Development (IFAD) emphasises this point by stating as follows:

“Land is fundamental to the lives of poor rural people. It is a source of food, shelter, income and social identity. Secure access to land reduces vulnerability to hunger and poverty. But for many of the world’s poor rural people in developing countries, access is becoming more tenuous than ever”. (IFAD, 2015).

In situations where land is not easily accessible to people, the impact will be felt in two respects. First, there will be an inability to produce food for themselves as observed by the IFAD. The second is that the opportunity of owning their own dwelling will become very remote. Shelter, being a basic human need just like food, the absence of access to land becomes a veritable existential challenge. The importance of shelter rationalises the promotion of home ownership and access to housing by governments across the world. Access to land remains an essential enabling element of these policies.

At all levels of society, land is a valuable resource. Indeed, it is one of the most valuable resources of humankind. This is confirmed by the statement of the World Bank (1989: p.87) that: *“In most countries, real estate (including land) accounts for between half and three-quarters of national wealth”*. This

statement has been further construed as implying that: *“it is impossible for countries to create wealth without real estate, or to be wealthy without possessing it”* (Onwuanyi, 2018: p.110). In further expatiation, countries cannot create wealth without real estate because real estate is an input to the creation of wealth through the production of goods and services. Having then used real estate to produce wealth and becoming wealthy, it is found that the possession of real estate is an indicator of wealth. Part of such wealth is held by home owners whose cumulative investments amount to a significant level of total investment within the economy (Duca *et al*, 2021). Real estate stores wealth, enlarges it over the long term and offers protection to wealth from inflation. As a consequence, *“global real estate is a more valuable asset class than all stocks, shares and bonds combined”* (Savills World Research, 2017).

The definitions of land

Due to its fundamental importance in society, land is an input to practically all human activities. A semblance of the essentiality of land is aptly expressed by the observation that *“all economic development depends to some degree on the availability of land-even a computer software developer working in ‘virtual reality’ needs an office or other work space”* Mahoney *et al*. (2007: p. 4). It is pertinent to add that even air and space travel which do not take place on land are facilitated by the availability of land space both for take-off, landing, and the parking of aircraft and spacecraft. Thus, the impact of land on human activities can be justifiably described as pervasive and extensive. In many fields of human activity land occupies an important place. These comprise fields which deal with the preservation of land in its natural state; its use for food production; the mining of its natural resources; and the revitalisation of damaged land. Others are concerned with creating human settlements and advancing the usefulness of land, its earning capacity, and thereby, its value. However, certain fields of human activity and learning have a closer relationship with land due to its fundamental role in their affairs. These core fields are agriculture, economics, geography and law which are particularly related to real estate studies and the land profession as a whole.

Agriculture

Agriculture is the land-based activity and business of cultivating crops and raising livestock to meet human needs. It is the primary economic activity across the world. Since the essential role of land in this field is food

production, agriculture describes land in terms of its capacity to meet these ends. Thus, land basically is arable (cultivable) or non-cultivable. Arable land is used to cultivate both food and perennial crops. Annual food crops such as rice, wheat and maize are replanted after each harvest. Perennial (or permanent) crops, on the other hand, are not replanted after each harvest. They include cacao, citrus, coffee and rubber. Agriculture recognises the uniqueness of land in terms of fertility, meaning that some land may naturally yield more produce than others. The application of fertilisers to naturally poor-yielding land may reduce this disadvantage, but the fact that fertilisers involve a cost proves the uniqueness of each land unit. It is possible for fertile agricultural land to suffer a depletion in productivity, but there is always the possibility of a recovery of its natural properties over time and with the use of technology. It is estimated that 13.4 billion hectares of land (approximately 11 percent or 1.5 billion hectares) of the earth's land surface is used for crop production (*arable land and land under permanent crops*). This represents slightly above a third (36 percent) of land estimated to be suitable for crop production.

Economics

Although land has been described as a gift of nature because it is a natural and useful asset which is not produced, this is not the position of economics. In economics, land is a factor of production of such essentiality that no production can take place without it. Although it is an essential factor input, it remains in a passive state until an effort is made to bring it into economic activity. Land also has the important economic characteristics of being mobile amongst uses, enabling it to serve different economic purposes; desirability, which makes it sought after; usefulness, which makes it beneficial to everyone; scarcity which makes people aspire to its ownership and use; exchangeability, which encourages its transfer from one person to another. In addition, land as a commodity possesses the physical characteristics of indestructibility, heterogeneity and spatial differentiation which has implications for its value.

Geography

This field is concerned with land as the physical environment of the earth, its atmosphere, inhabitants and their interactions. In geography, land constitutes both dry and wet portions, whether economically useful or not. The dry portion includes land forms such as mountains, rocky highlands and plateaus. On the other hand, the wet portion consists of land which is

permanently lying under water bodies such as oceans, seas, rivers, creeks, streams and swamps. Both dry and wet portions combine to make up the earth's surface in the respective proportions of 29% and 71%.

Law

It is rational that the concept of land exists also in law. Not only is the concept of rights legally founded, land rights are legal rights. The law being a body of rules by which a people's affairs are governed, the importance of land means that disputes can arise over its use and ownership. So, for the effective resolution of disputes which may arise and the maintenance of order, the law necessarily comes into play. Therefore, land rights cannot be held and transferred in the absence of the law. In Black's Law Dictionary, Bryan Garner (2024), defines land as "*An immovable and indestructible three-dimensional area consisting of a portion of the earth's surface and everything growing on and permanently affixed to the land*". This definition looks beyond the earth's surface to include incorporeal rights "*everything attached to the earth otherwise known as fixtures and all chattels*". The focus here is on the rights available in land and how alienation and tenure may affect them. This accords with the view of law as a body of rules set up by a people to govern their affairs. The quality of rights held in land are defined and interpreted by law which, by its role in the governance of society and the economy, remains perhaps the most influential factor in land investment activity. The law does this through investor guidance and protection which builds confidence within the system

The role of land in economics and cognate fields

land in economics

Land economics, a discipline of economics, applies the theories of economics to issues relating to land as a key, finite and valuable resource. It is a broad field which covers the surface of land as well as the resources held within it. The discipline includes natural resources economics, environmental economics, regional science and urban economics. The areas of study include the drivers of land use changes as reflected by land markets and land prices. Furthermore, the environmental and socio-economic impact of land use and land use changes. Of relevance also are the legal institutions for land governance and the conservation and preservation of land.