New Supply Schedule/Development Cost Variables – QIII
Shifts in the supply schedule for new construction can result from increased construction costs or increased land costs. Construction costs are dependent on short-term interest rates (construction financing), the regulatory environment, and labor and materials costs. Negative supply changes result in an outward shift in the construction cost curve—for the same level of asset prices, construction will be less. Positive changes in the supply environment, such as easy availability of construction financing move the curve inward and increase construction for the same asset price. For a given level of asset prices, a negative shift in asset construction in QIII will eventually lower the stock of space in QIV. With less space, rents will have to rise in Q1 which will generate higher asset prices in QII. The equilibrium rectangle will lie to the upper left of the original equilibrium. The magnitude of changes will depend on the slopes (elasticities) of the various curves.

Supply Flow Variables – QIV
Unlike the other quadrants, changes in factors that affect supply flow do not shift the curve in the quadrant; rather, changes in flow are reflected in movement along the curve since supply flow is represented by the curve. A negative supply constraint would move along the curve to the left, leading to a higher rent level as determined by the supply curve, leading to a higher asset price, and a higher replacement cost; note however, that in order for equilibrium to be achieved, a shift in one of the curves in the other three quadrants must occur. The most likely candidate is the curve in QIII -the replacement cost curve. Replacement cost includes the cost of land and constraints on supply flow will increase land costs. Non-market driven supply flow factors such as land use controls (zoning, growth control measure, etc) and development application processing times have a direct effect on the rate that supply is added to the market which ultimately leads to higher development costs.

Owner Occupied Real Estate Example
Asset prices and rents are determined by the same participants, i.e. homeowners are both occupiers of space and investors.

The demand for single family homes depends on the number of households, their incomes and the annual costs of owning a home - the equivalent of rent.

In Q1, a rise in the number of households shifts the demand curve out. With greater demand and a fixed stock of housing units, rent (annual housing payments) must rise. In Q2, annual payment is translated into a house price that households are willing to pay for a home, e.g. Lower interest rates imply that with the same annual payment, households can afford to pay a higher asset price. New housing development and a new equilibrium stock of space follow.