Real Estate Market Analysis

Basic Principles, an

Overview of the Process and Levels of Study

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Real Estate Market Analysis

- Studies that Focus on the Market
  - Analysis of Local Economic Conditions
    - Study of the fundamental determinates of the demand for all real estate in the market
  - Market Analysis
    - Study of the demand for a particular property type
      - A site in search of a Use
      - A Use in Search of a Site

Real Estate Market Analysis

- Marketability Analysis
  - Study of a specific development or property to assess its competitive position
- Studies That Focus on Individual Decisions
  - Feasibility Analysis
    - Evaluates a specific project as to whether or not it is likely to be carried out successfully
  - Investment Analysis
    - Evaluates a specific property as a potential investment. Investor specific.

Overview of Market Analysis Components

- Two Major Study (Question) Types
    - 1. A *Site* in Search of a Use
    - 2. A *Use* in Search of a Site

Overview of Market Analysis Components

The Study Process

- 1. What attributes does the subject property offer to the market?

- 2. Who are the potential, typical users/most likely purchasers of the subject?

  - Most Probable Buyer Analysis

Overview of Market Analysis Components

- 3. Is the property use needed?

Demand Analysis

- Population $\Rightarrow$ Households $\Rightarrow$ Housing Units

- Income $\Rightarrow$ Effective Buying Power $\Rightarrow$ Retail Sq. Ft.

- Jobs $\Rightarrow$ % Use Office $\Rightarrow$ Office Sq. Ft.

- Jobs $\Rightarrow$ % Use Industrial $\Rightarrow$ Industrial Sq. Ft.

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Overview of Market Analysis Components

- ## 4. What is the Competition?
  - Supply Analysis

- ## 5. Analysis comparing demand and supply
  - Equilibrium Analysis
    - How much rent can be charges?
    - Is the location competitive?
    - Are the property attributes competitive?
    - How much of the demand can be captured?

Overview of Market Analysis Components

- ## 6. Subjects marketability
  - Capture Analysis
- ## 7. Does the subject make financial sense?
  - Is it a good investment?
  - What is its market value?
  - Is the property's value more than its cost?
    - I.e.: is there any entrepreneurial reward for the risk?
  - Feasibility Analysis and/or Highest and Best Use

Step 1: Define the Product Property Productivity Analysis

- A. Physical Attributes
- B. Legal and Regulatory Attributes
  - Private
  - Public
- C. Location Attributes
  - Identification of economic attributes – the association between land uses and their linkages
  - Identification of the movement of demand in relation to the direction of urban growth

Step 1: Define the Product Property Productivity Analysis

- Analysis of Urban Growth Structure
  - Pattern, Direction and Rate
- Analysis of factors influencing urban growth structure
  - Natural, Manufactured and Political
- Identification of competition and comparison of location advantages and disadvantages between competition and subject

Step 1: Define the Product Property Productivity Analysis

- D. Market appeal Attributes:
  - Identification of specific features such as design or amenities that appeal to market participants

Step 2: Define the Users Market Delineation

- A. Market area concepts
  - Time-distance concepts
  - Area over which equally desirable, substitute properties tend to compete with the subject
- B. Geographic Market Delineation
- C. Identification of Characteristics of Most Probable User (consumer profile)

Step 3: Forecast Demand Factors

- A. Major demand types
    - Population creates households
    - Income creates retail buying power
    - Employment creates office and industrial users
- B. Tastes and preferences: behavioral, motivational, and psychological factors
- C. Demand segmentation

Step 4: Inventory and Forecast Competitive Supply

- A. Existing stock of competitive properties
- B. Potential competition
  - Proposed construction
  - Probable additional construction
- C. Factors influencing completion of potential competition
  - Land availability and costs
  - Interest Rates
  - Material and labor costs
  - Entrepreneurship

Step 5: Analyze the Interaction of Supply and Demand

Residual Demand Study

- A. Competitive environment
- B. Residual Demand Concepts

Marginal Demand Analysis

	Current	plus 5 years	plus 10 years
	Square Feet	Square Feet	Square Feet
Estimate of supportable retail space in primary and secondary trade areas adjusted for vacancy	582,308	718,083	922,371
Deduct existing competitive retail space	1,100,976	1,100,976	1,100,976
Marginal demand (excess or shortfall) estimate	(518,668)	(382,893)	(178,605)

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Step 6: Forecast Subject Capture

- A. Capture rate and absorption period for subject property
- B. Risk Analysis
- C. Reconciliation of market analysis and conclusions

Market Analysis Levels

- Inferred Demand Studies
  - Levels A and B
  - Emphasis is on knowledge and historical data
- Fundamental Demand Studies
  - Levels C and D
  - Emphasis is on quantifiable data and forecasting

Level A Market Analysis

- Draws on readily available regional and city data, a general area description provides the backdrop for the comparable property data used to represent market conditions
  - Analyses are more descriptive than analytical
  - Historically oriented rather than future oriented
  - Rent and comparable sales are relied upon

Level A Market Analysis

- A. Property productivity analysis
    - Physical attributes
    - Legal attributes
    - Location attributes
- B. Supply and demand analysis
    - Demand
    - Supply

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Level A Market Analysis

- C. Marketability/equilibrium analysis/highest and best use conclusions
  - Focuses on use conclusions
  - Timing based on analysts feel for the market
    - Improved Properties
      - Use and timing for property use
    - Vacant land or land as though vacant
      - Use – Usually uses permitted by current zoning
      - Timing – Considered immediate

Level B Market Analysis

- Relies upon broadly based surveys of the market for estimating supply and demand
- Uses quantifiable data as a basis for judgments about highest and best use and timing

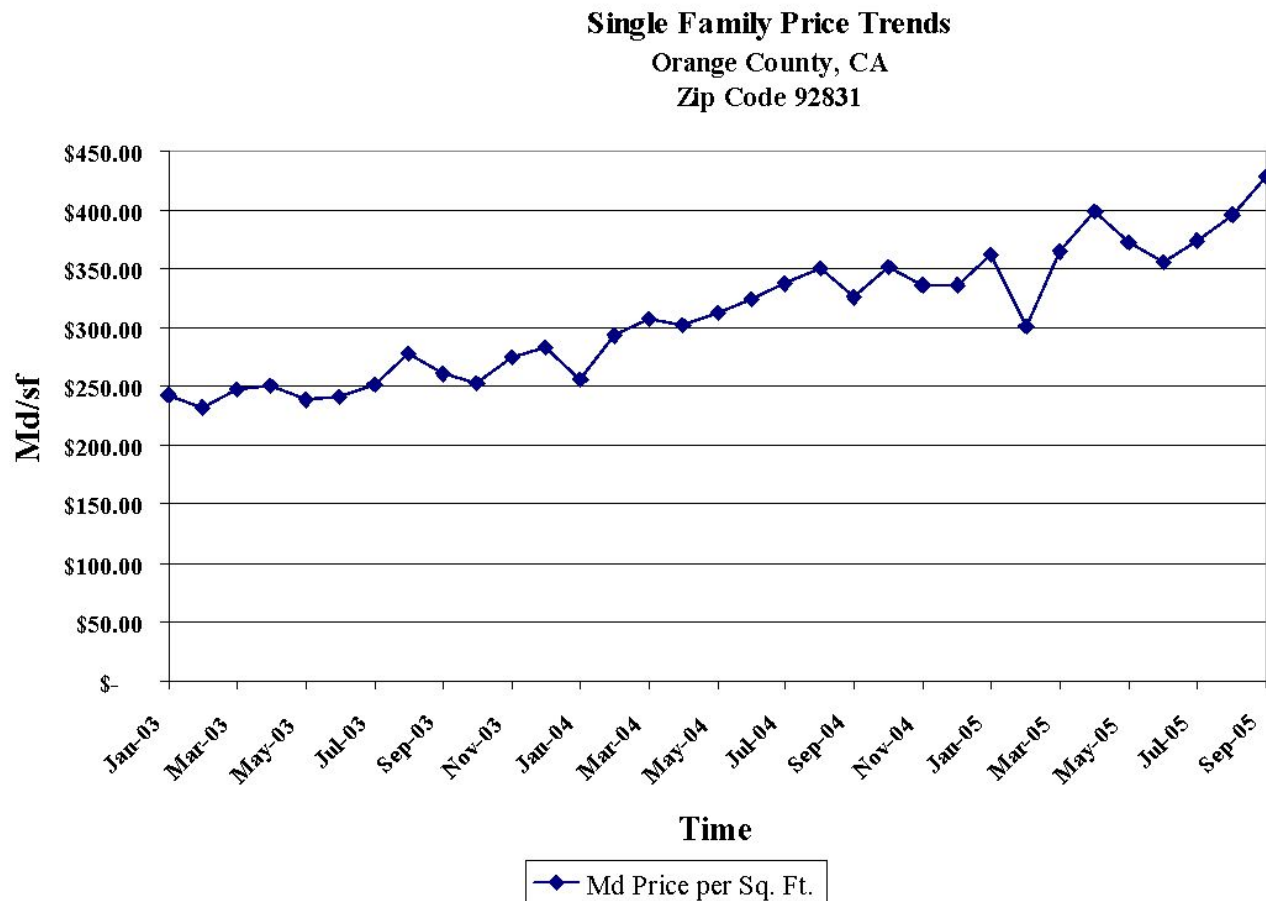# Level B Market Analysis

- A. Property productivity
    - Physical Attributes
    - Legal Attributes
        - Includes a check for deed restrictions, easements, and other legal attributes
    - Location attributes
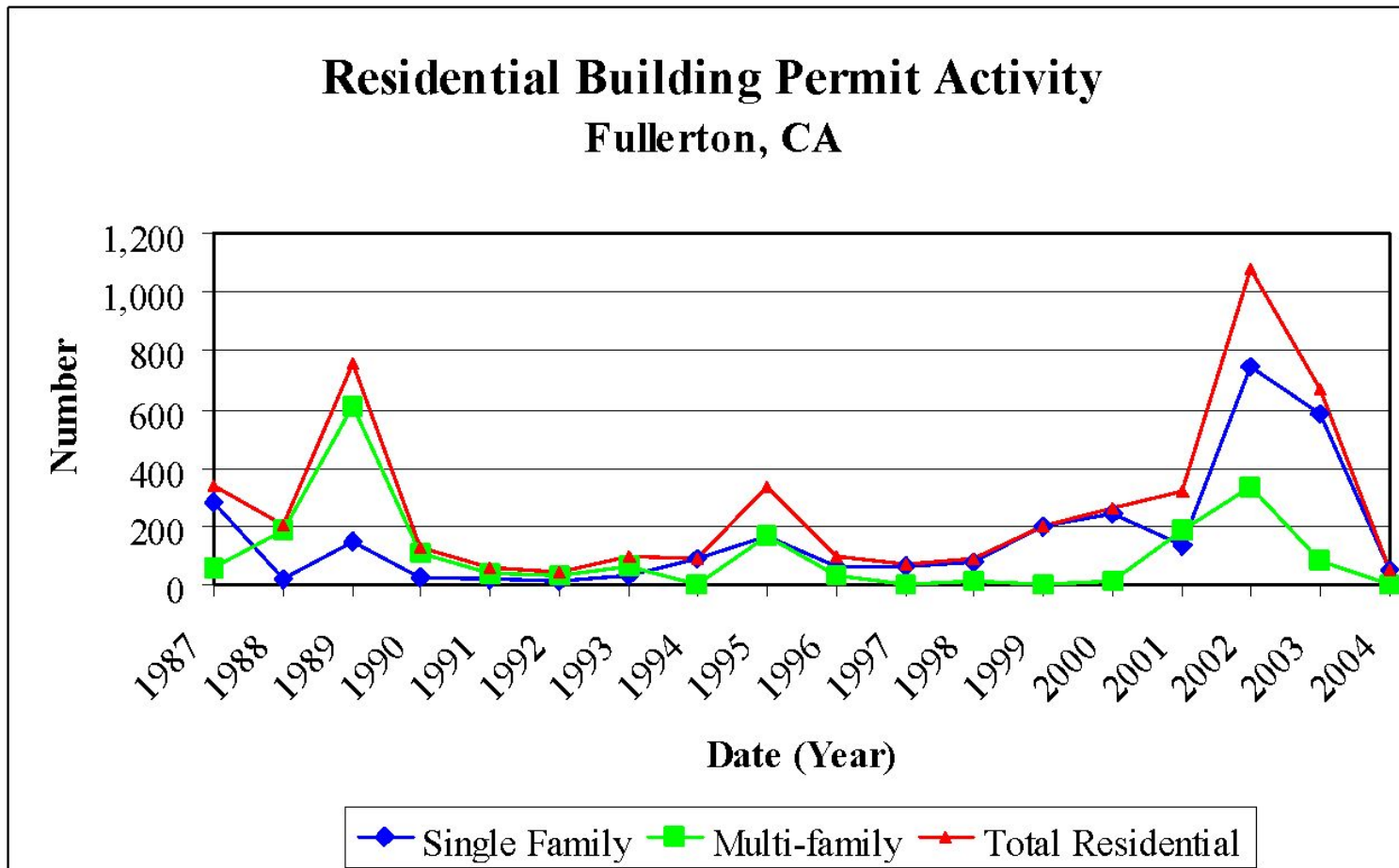- B. Supply and demand analysis

Level B Market Analysis

- C. Marketability/equilibrium analysis/highest and best use
  - Uses specific quantifiable data for use and timing
  - Employs data that relate to timing of demand – timing becomes function of demand relative to supply
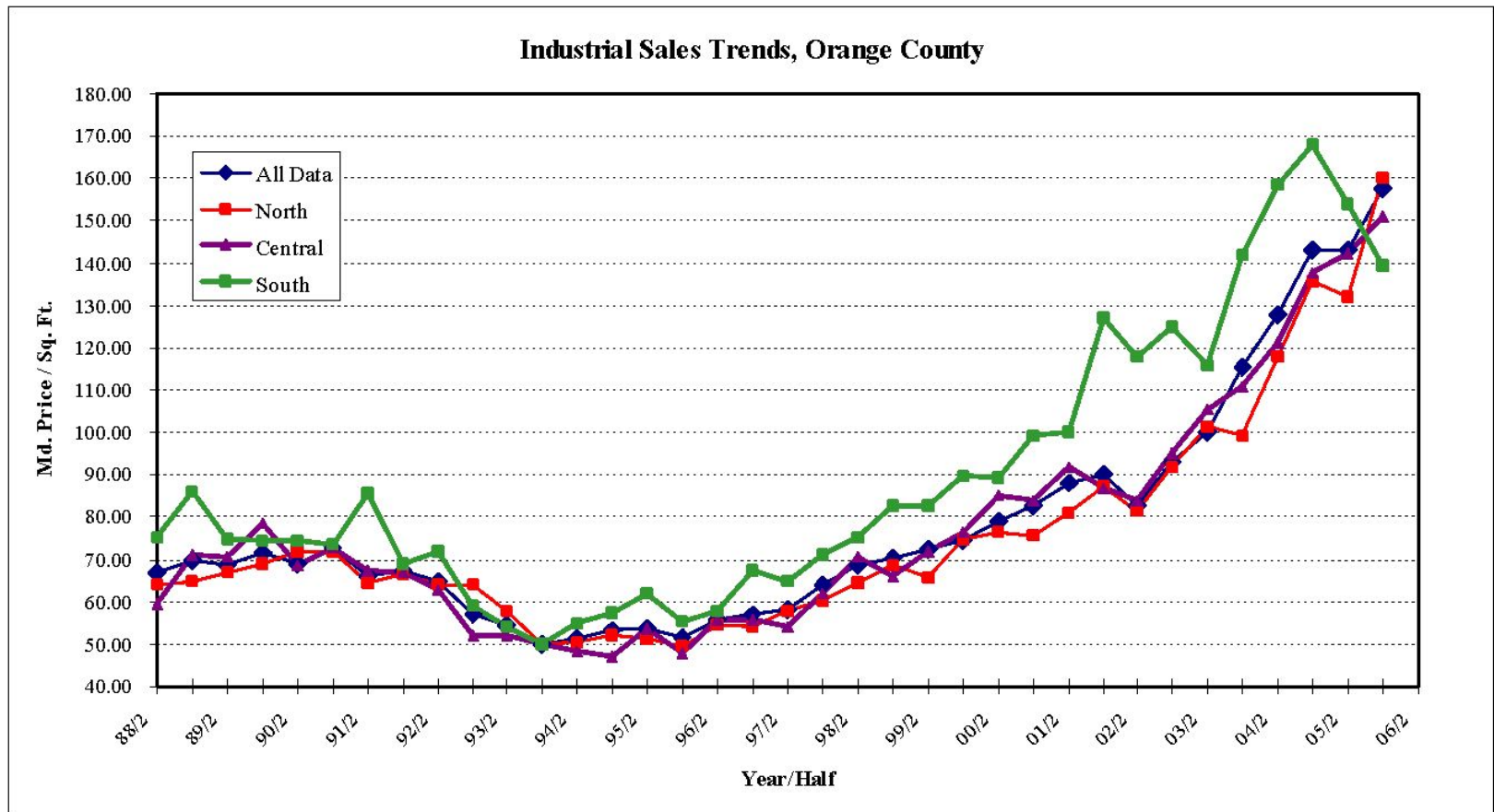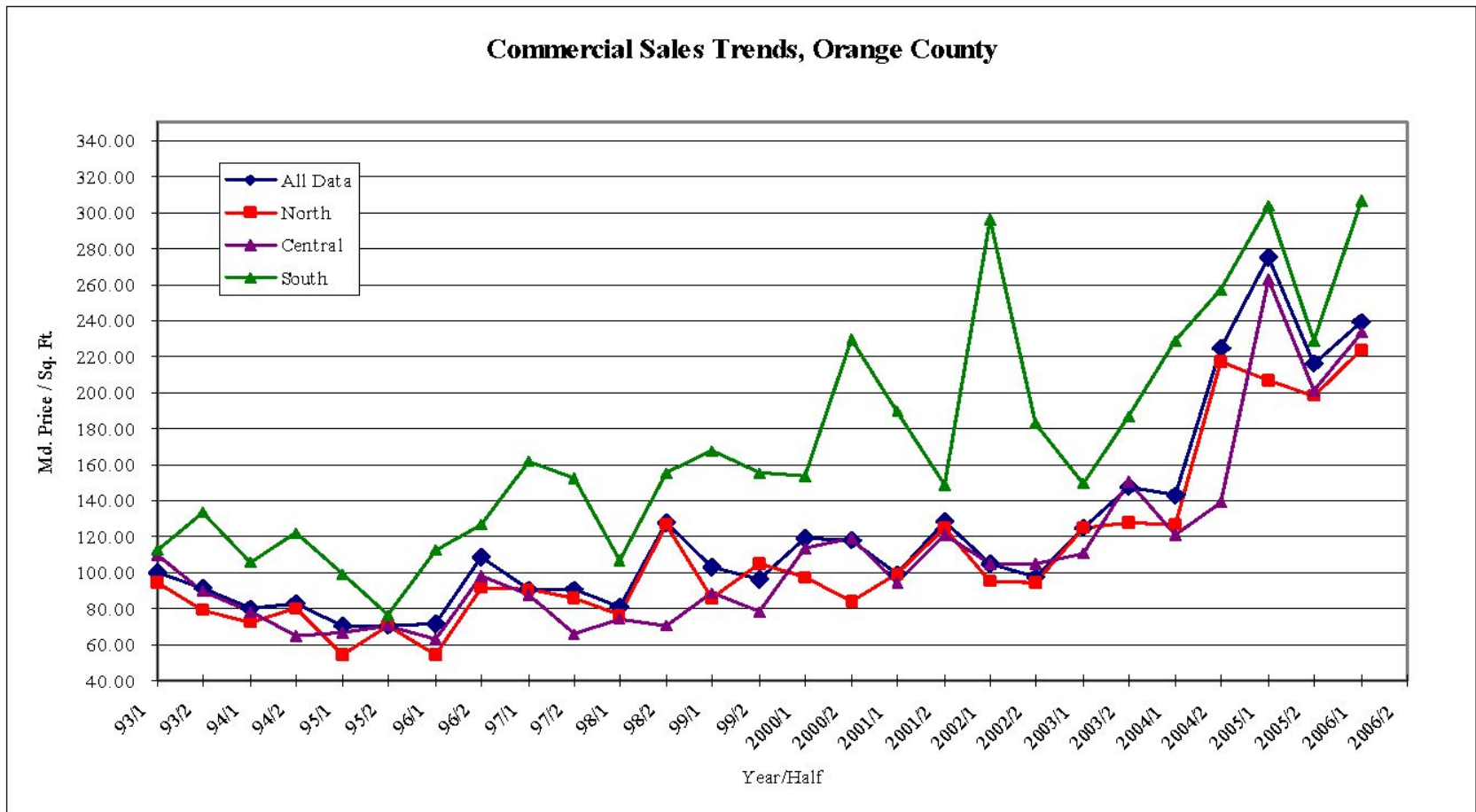
Regional Sales Trends

Single Family Price Trends
Orange County, CA
Zip Code 92831

Regional Sales Trends

Residential Building Permit Activity
Fullerton, CA

Legend: Single Family, Multi-family, Total Residential

Regional Sales Trends

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Regional Sales Trends

Commercial Sales Trends, Orange County

Level C Market Analysis

- Employs fundamental forecasting techniques
- Can discern whether there is an excess or supply, an excess of demand, or a balanced market

Level C Market Analysis

- A. Property productivity analysis
  - Physical attributes – same as level B
  - Legal attributes – same as level B
  - Location attributes
    - Analyzed with a location rating grid to provide some quantified analysis of the subject's competitive position

Level C Market Analysis

- B. Supply and demand analysis
  - Uses future oriented forecasting techniques for forecasting demand and supply
- C. Marketability/equilibrium analysis/highest and best use conclusions
  - Probable use
  - Probable use of vacant land

Level C Market Analysis

Demand Calculations Summary

	Year 0	Year 1	Year 2
Population	215,717	217,874	220,053
Population Increase		2,157	2,179
Persons per household		3.50	3.50
Total number of households		616	622
Percentage of owner households		55.0%	55.0%
Demand for Subject Unit Type		339	342
Plus normal vacancy		3.0%	3.0%
Total demand for subject housing		349	353
Affordability percentage		25.0%	25.0%
Total Demand for owner occupied units		87	88

Level D Market Analysis

- Usually handled by professional real estate market analysts
- A. Property productivity analysis
  - Includes detailed projections of probable future land uses
- B. Supply and demand analysis
  - Forecasting demand and supply
- C. Marketability/equilibrium analysis/highest and best use conclusions
  - Improved existing or proposed properties
  - Vacant land

Summary
Levels of Market Analysis

- Inferred Demand Studies
- Sub-Level: A & B

- Infer subject attributes

- Infer location determinants of use & marketability by macro analysis

- Fundamental Demand Studies
- Sub-Level: C & D

- Quantify subject attributes

- Quantify and analyze location determinants of use & marketability by macro and micro analysis

Summary
Levels of Market Analysis

- Inferred Demand Studies
- Sub-Level: A & B

- Infer demand by general economic base analysis of others
- Infer demand by selected comps

- Fundamental Demand Studies
- Sub-Level: C & D

- Forecast demand by original economic base analysis
- Forecast demand by subject specific market segment & demographic data

Summary
Levels of Market Analysis

- Inferred Demand Studies
- Sub-Level: A & B

- Infer supply by selected comps

- Infer equilibrium highest and best use and capture conclusion

- Fundamental Demand Studies
- Sub-Level: C & D

- Quantify supply by inventorying existing & forecasting planned competition

- Quantify equilibrium
  - Graphic map use for H&BU
  - Timing – quantified capture forecast

Summary
Levels of Market Analysis

- Inferred Demand Studies
- Sub-Level: A & B

- Emphasis is on:
  - Instinctive knowledge
  - Historical Data

- Fundamental Demand Studies
- Sub-Level: C & D

- Emphasis is on:
  - Quantifiable data
  - Forecast

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Criteria for Selecting Appropriate Level of Market Analysis

- Prevailing Market Conditions on the Study Date

- Project Type

- Project Size

- Client Needs

So That's

An Overview of Real Estate Market Analysis

Are there any Questions?

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