



Basic Concepts of Real Estate Marketability Analysis



Wayne Foss, DBA, MAI, CRE, FRICS
Foss Consulting Group
Email: wfoss@fossconsult.com

Property Productivity Concepts

- Productivity Analysis -
 - Analysis of a property's capacity to deliver services to meet human needs, house economic activities, and supply satisfaction and amenities.
- A parcel of real estate produces (supplies) services for those who use it.
 - Price paid is a function of:
 - its supply of services relative to potential users' purchasing power
 - need for its services
 - inability to find good substitutes at a lower price
- Market Analysis in Real Estate is different from other types of market analysis
 - real estate is not well defined
 - product can change over time
 - location is fixed



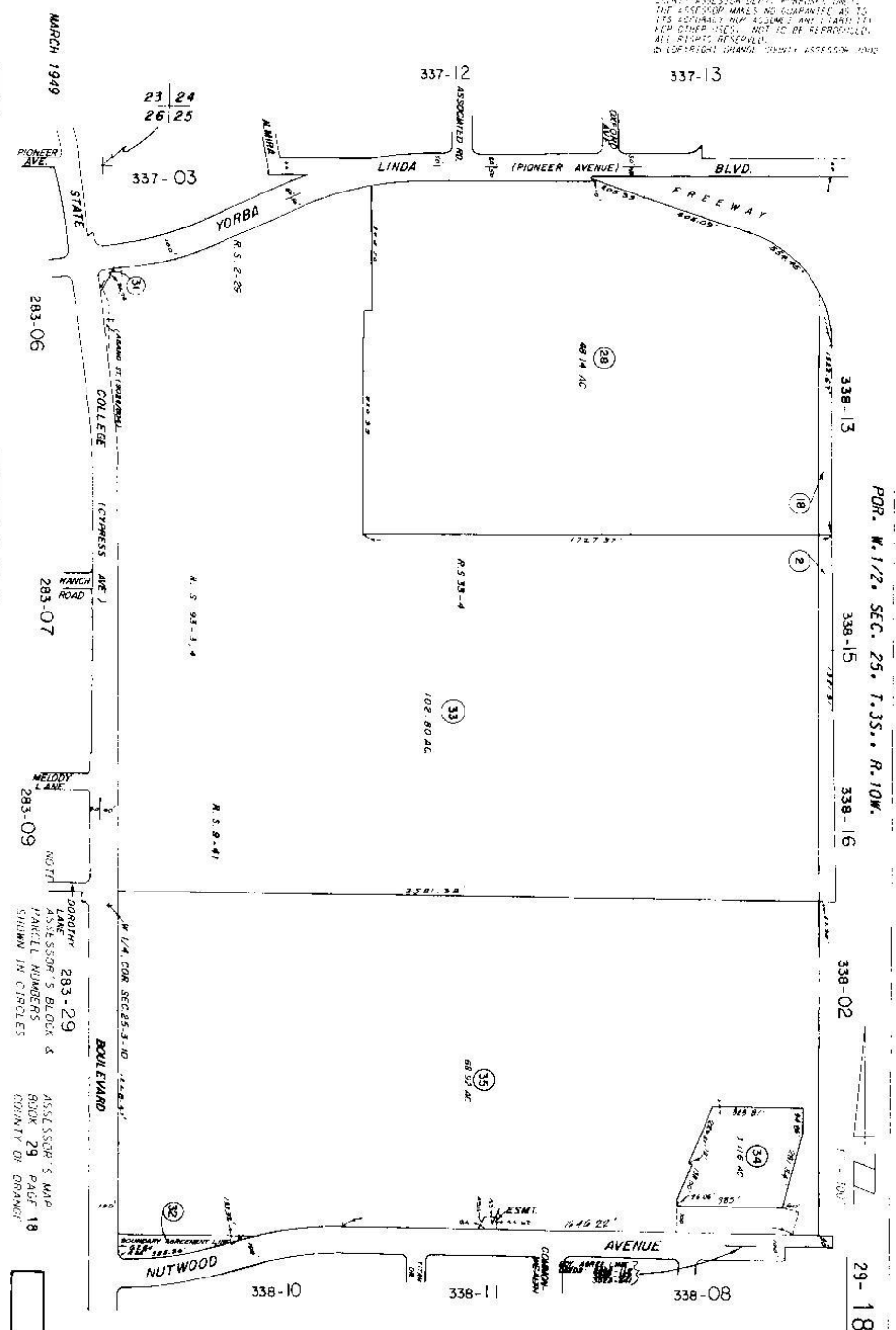
Property Productivity Concepts

- Focus of the discussion for all aspects of the subject property is to:
 - Segment the subject market to address advantages and disadvantages
- Property Productivity Analysis seeks to answer:
 - What does the subject have to offer to the market?
 - What are the subject's competitive advantages and disadvantages

Property Productivity: Site and Improvements

- Design and condition of the subject can limit the potential market it can serve.
- Physical attributes analysis is the initial action in marketability analysis
- Physical attributes of the site:
 - Size, Shape, Topography, Climate
 - Vegetation, Natural Drainage, Floodplain
 - Soil and Subsoil

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MARCH 1949

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ASSASSOR'S MAP
BOOK 29 PAGE 18
COUNTY OF GRANT

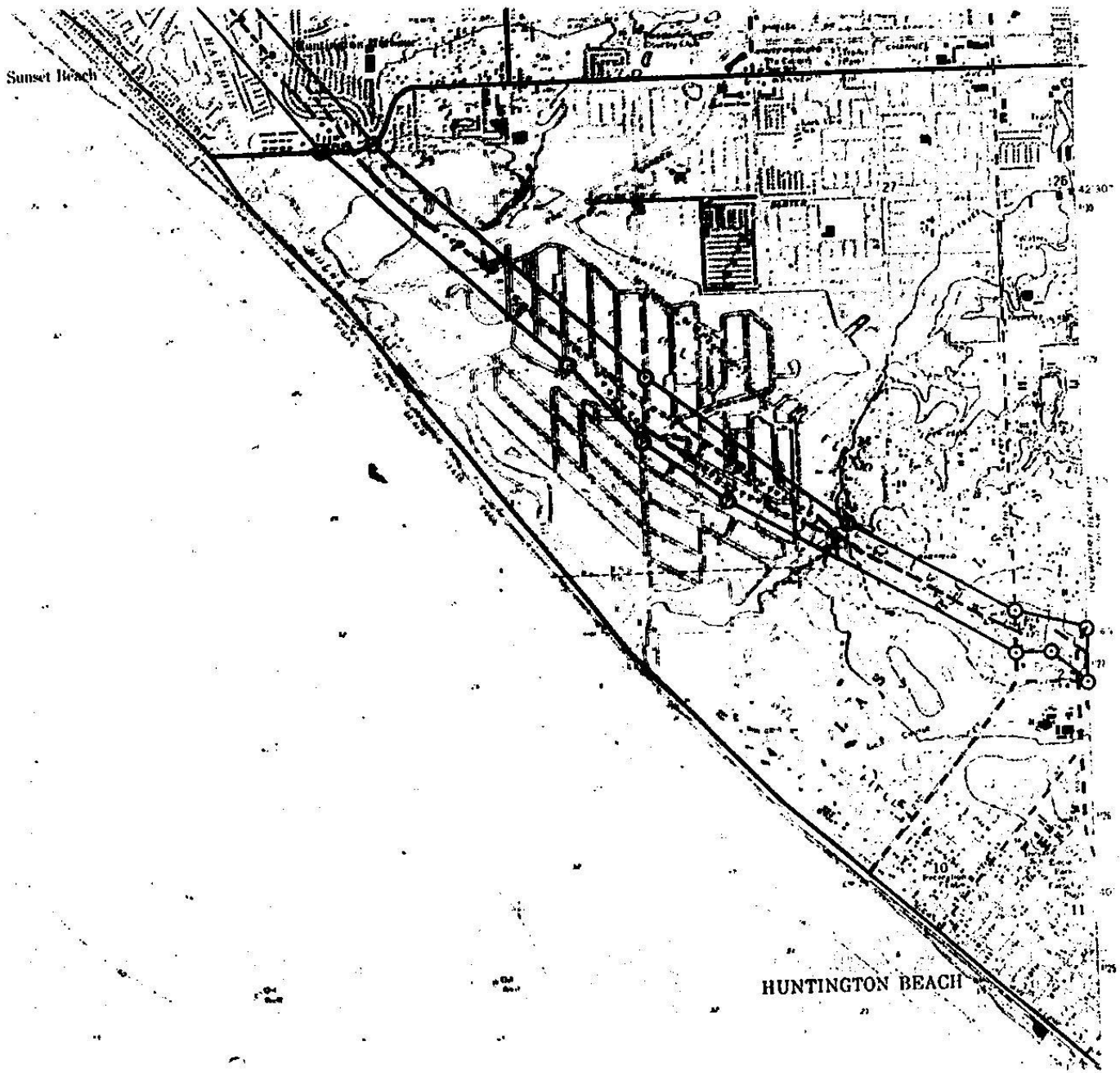
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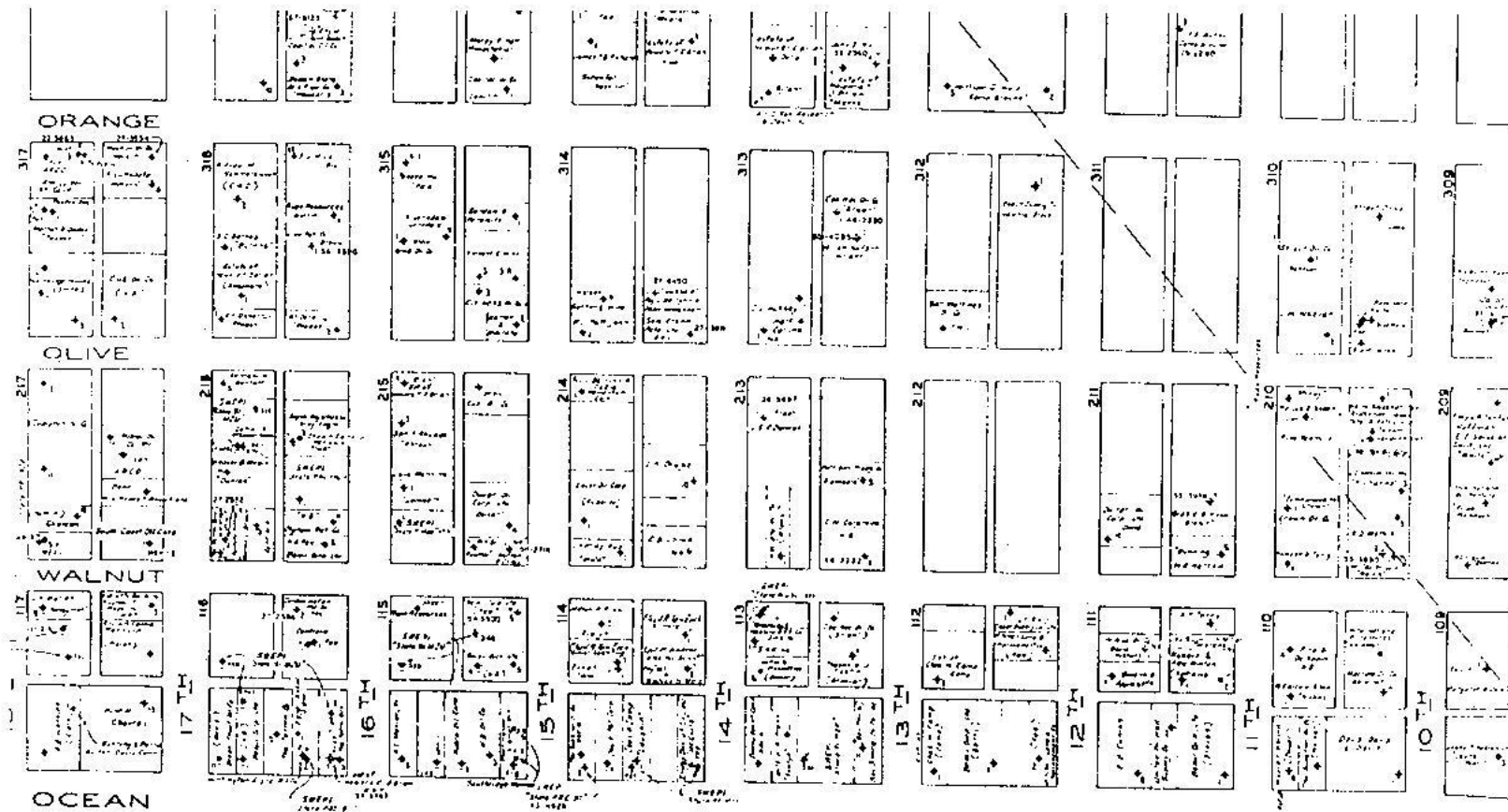
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Property Productivity: Site and Improvements

- Physical Attributes of a Structure
 - Exterior physical features
 - Substructure and Superstructure
 - Interior physical features:
 - Walls, Supports and Finish
 - Equipment and Mechanical Systems
 - Plumbing, Heating, Ventilating, and air-conditioning
 - Electrical
 - Miscellaneous including fire protection, sprinklers, escalators and elevators, signal, alarm or call systems
- Market Appeal Attributes
 - Unique and Special features of a property
 - Think: Appeal to *Who* or *what* group of users?








Property Productivity: Legal and Regulatory Attributes

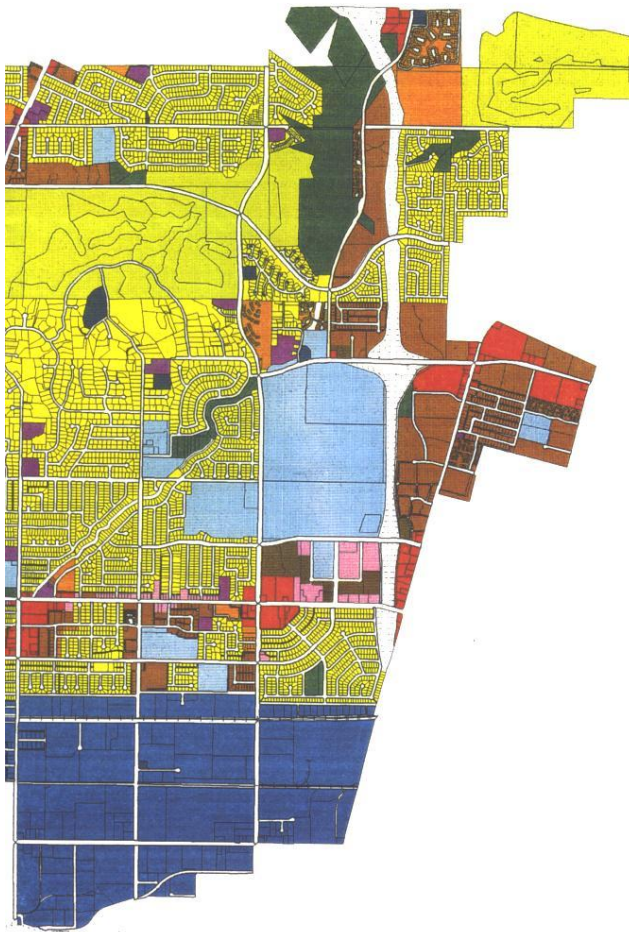
- Regulations may be Public or Private
 - Can enhance or detract from the value of the property
- Examples of Constraints:
 - Local Zoning Ordinances and General Plans
 - restrict a site that is ideal for an office building to residential housing
 - strong neighborhood association prevents changes in use
 - Local Subdivision Codes
 - requirements for extra wide streets and landscaping increase cost of development, thereby reducing the supply
- Examples of Enhancements:
 - Rezoning of a neighborhood that is undergoing transition to a higher and more intensive use. (i.e.: residential to commercial)

LAND USE MAP

LEGEND

Planned Use

-  Low Density Residential
-  Low-Medium Density Residential
-  Medium Density Residential
-  High Density Residential
-  Greenbelt Concept
-  Commercial
-  Downtown Mixed Use
-  Office
-  Industrial
-  Schools
-  Parks and Recreation
-  Government Facilities
-  Religious Uses



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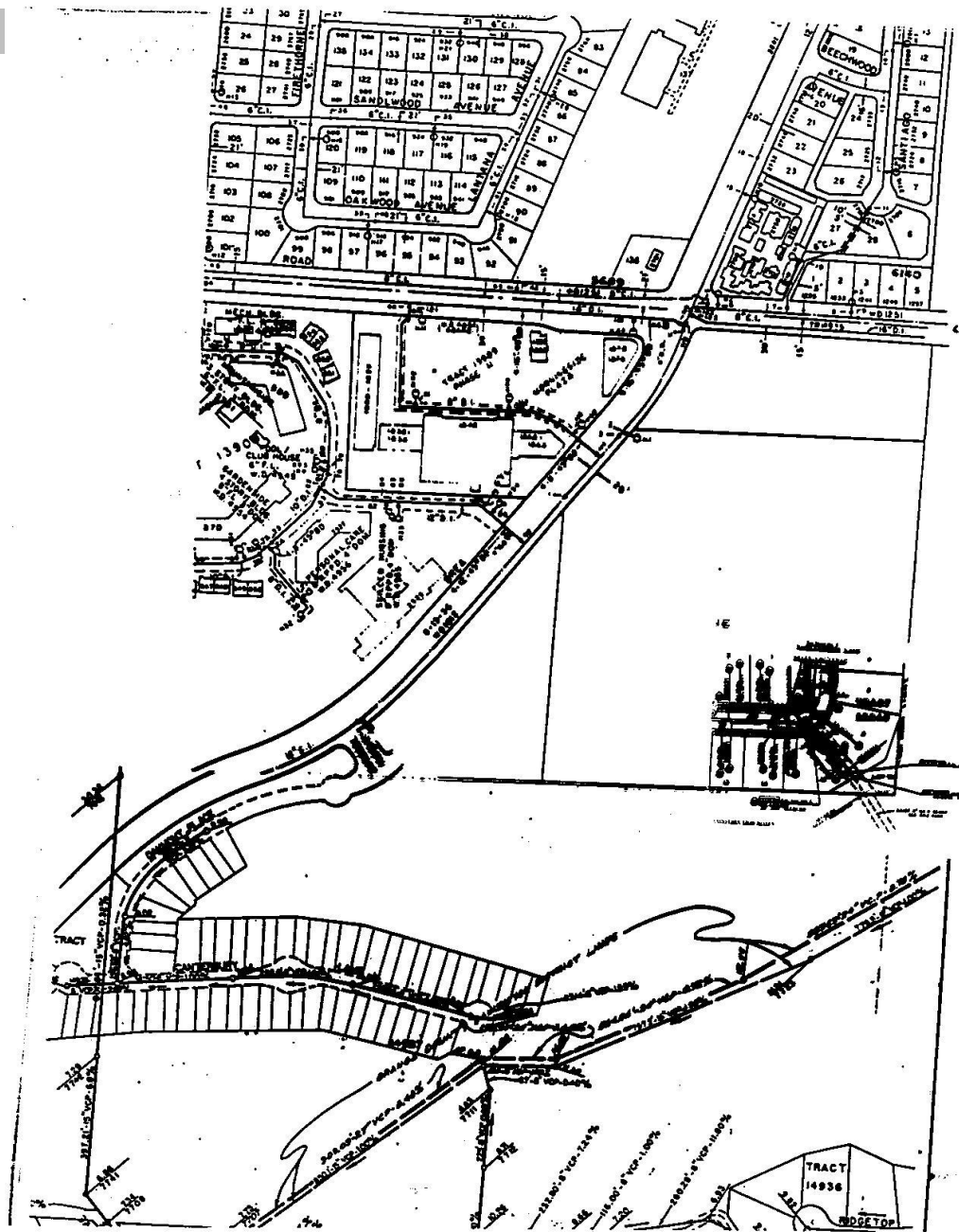
5-7-62	899	2-7-72	1710
12-3-62	938	2-7-72	1711
2-21-66	1186	2-7-72	1712
9-18-67	1348	2-7-72	1713
2-17-69	1472	2-7-72	1714
10-19-70	1606	2-7-72	1715
5-3-71	1643	2-7-72	1716
1-3-72	1707	6-5-72	1749
		6-5-72	1749
		7-17-72	1763
		2-20-73	1819

- [R2] TWO FAMILY RESIDENCE DISTRICT
 - [R3] LIMITED MULTIPLE FAMILY RESIDENCE DISTRICT
 - [R4] MULTIPLE FAMILY RESIDENCE DISTRICT
 - [CB] GENERAL BUSINESS DISTRICT
 - [I2] INDUSTRIAL DISTRICT
 - [CI] NEIGHBORHOOD COMMERCIAL DISTRICT
 - [CF-R] COMMUNITY FACILITIES (RECREATIONAL) DISTRICT
- SUFFIX LEGEND:
- [O] COMBINED WITH OIL PRODUCTION
 - [O] COMBINED WITH OIL PRODUCTION IN AREA BOUNDED BY PALM AVE ON NE, GOLDENWEST ST ON NW, OCEAN AVE ON SW, & SEVENTH ST ON SE.
 - [O] COMBINED WITH OIL PRODUCTION
 - [O] COMBINED WITH OIL PRODUCTION

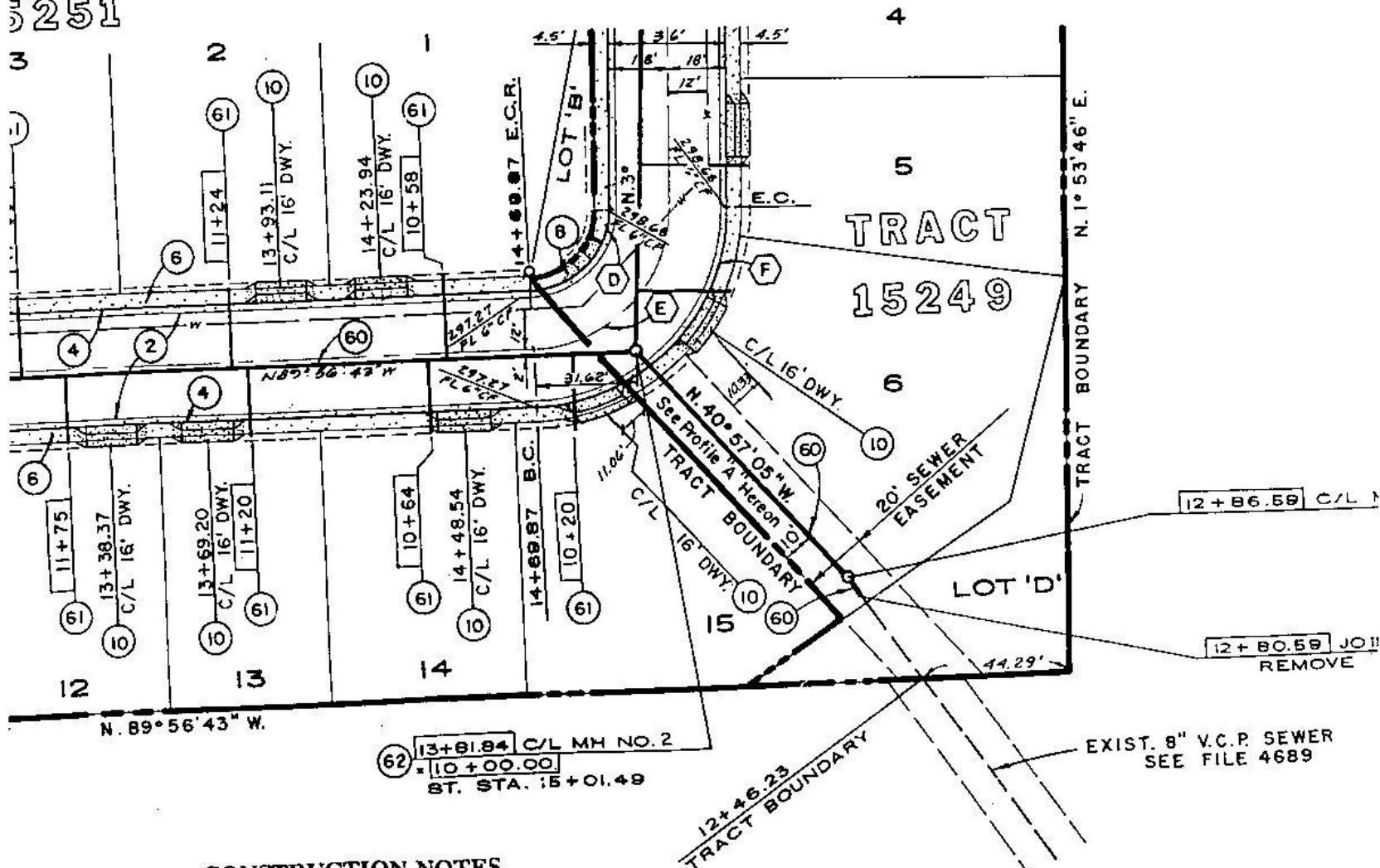


Property Productivity: Location Determinants

- Linkages:
 - Transportation linkages
 - Movement of people, goods and services to and from the subject
 - Utility linkages: gas pipelines, sewer, water, telephone, electricity
 - Components
 - Route: The established or directed course of travel between two spatially separate parcels of real estate
 - Access: The ability to enter or pass to a site from a route, or to a route from a site.
 - Examples are streets, curb cuts, sewer laterals
 - Travel Mode: The locomotion method for traversing a route and gaining access.
 - Examples are automobile, bus, train, truck, airplane, boats, etc.
 - Route Orientation: A route may be oriented inward toward the subject, outward from the subject or dual directional.
 - Example, a grocery store located on a busy street so that people returning from work can easily stop.



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CONSTRUCTION NOTES

1. Place 4\" C.A.B. over 4\" C.A.B. with approved prime coat.

2. THESE PLANS WERE PREPARED UNDER

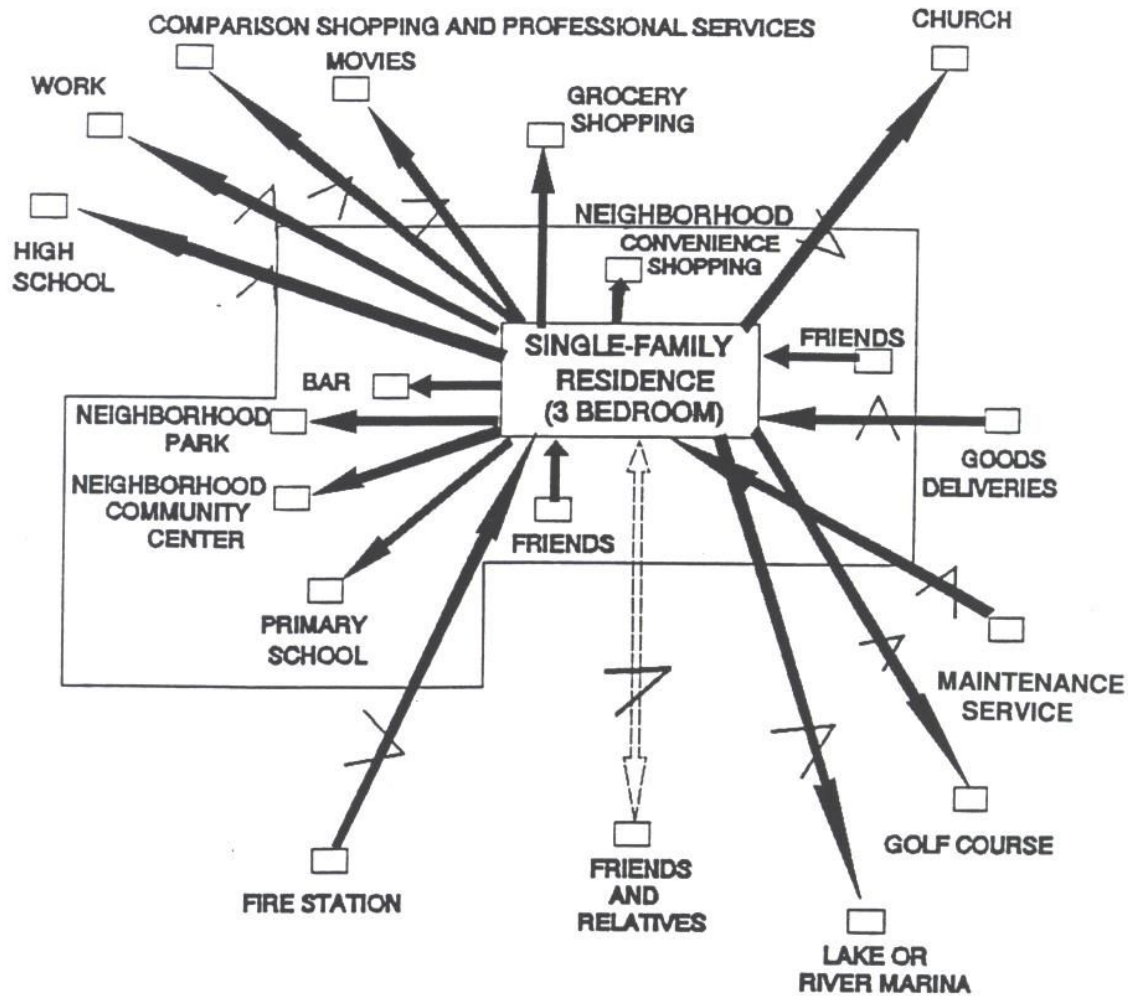


Property Productivity: Location Determinants

- Exposure and Externalities
 - May have positive or negative effects on the productivity of the site and its linkages
- Neighborhood Externalities
 - neighborhood character - properties compatibility with each other
- Linkage Externalities
 - impairment to the productivity of the land such as when a sewer has reached it's capacity, but the neighborhood is only one-half developed or streets are too narrow and overcrowded.
- Classification of Externalities
 - can be Positive or Negative, Natural or Man-made

Property Productivity: Location Determinants

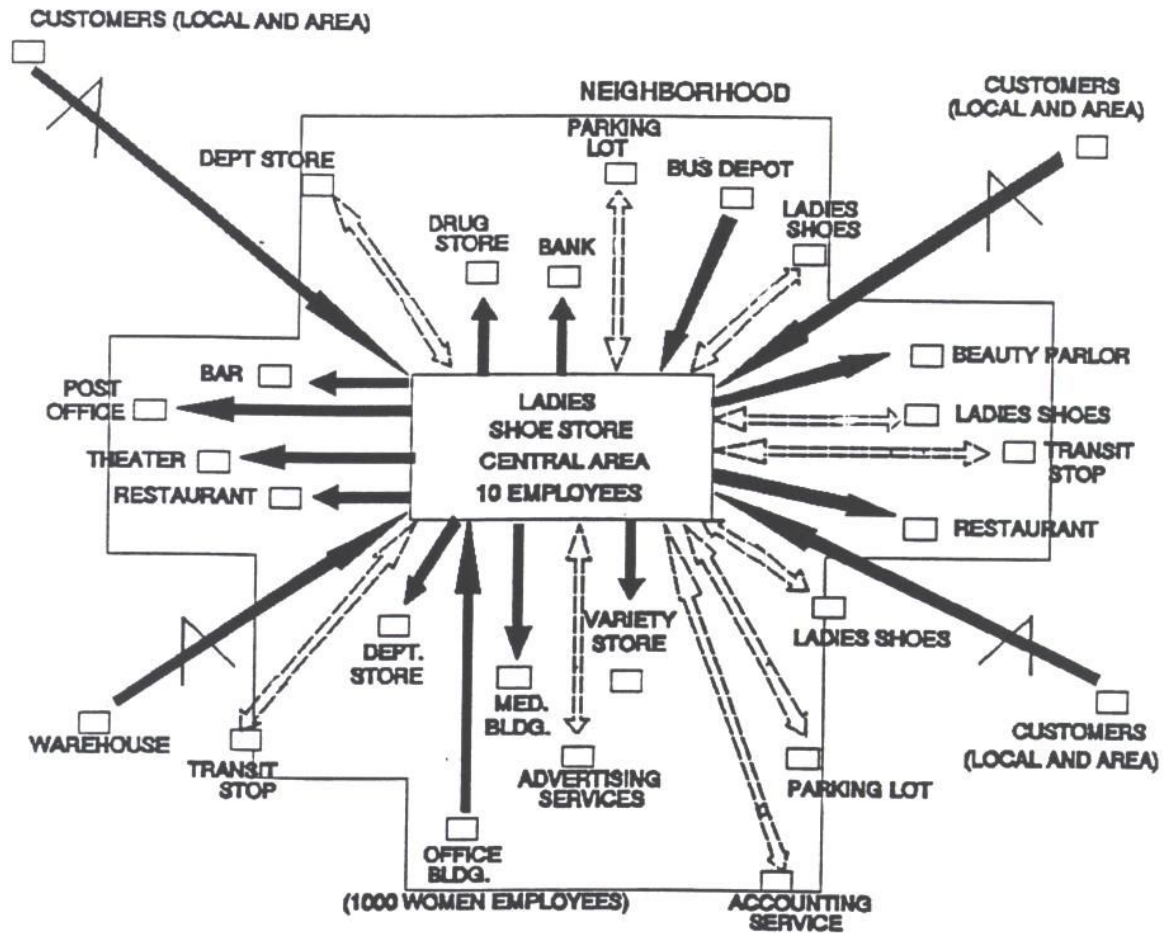
- Associations: Different types of property require different linkages and land use associations
 - Housing must be linked to jobs, shopping and community facilities
 - Retail uses need customers
 - Office uses are supported by hotels, print shops and restaurants



SITE ACCESSIBILITY ORIENTATIONS BY RELATIVE TIME DISTANCES



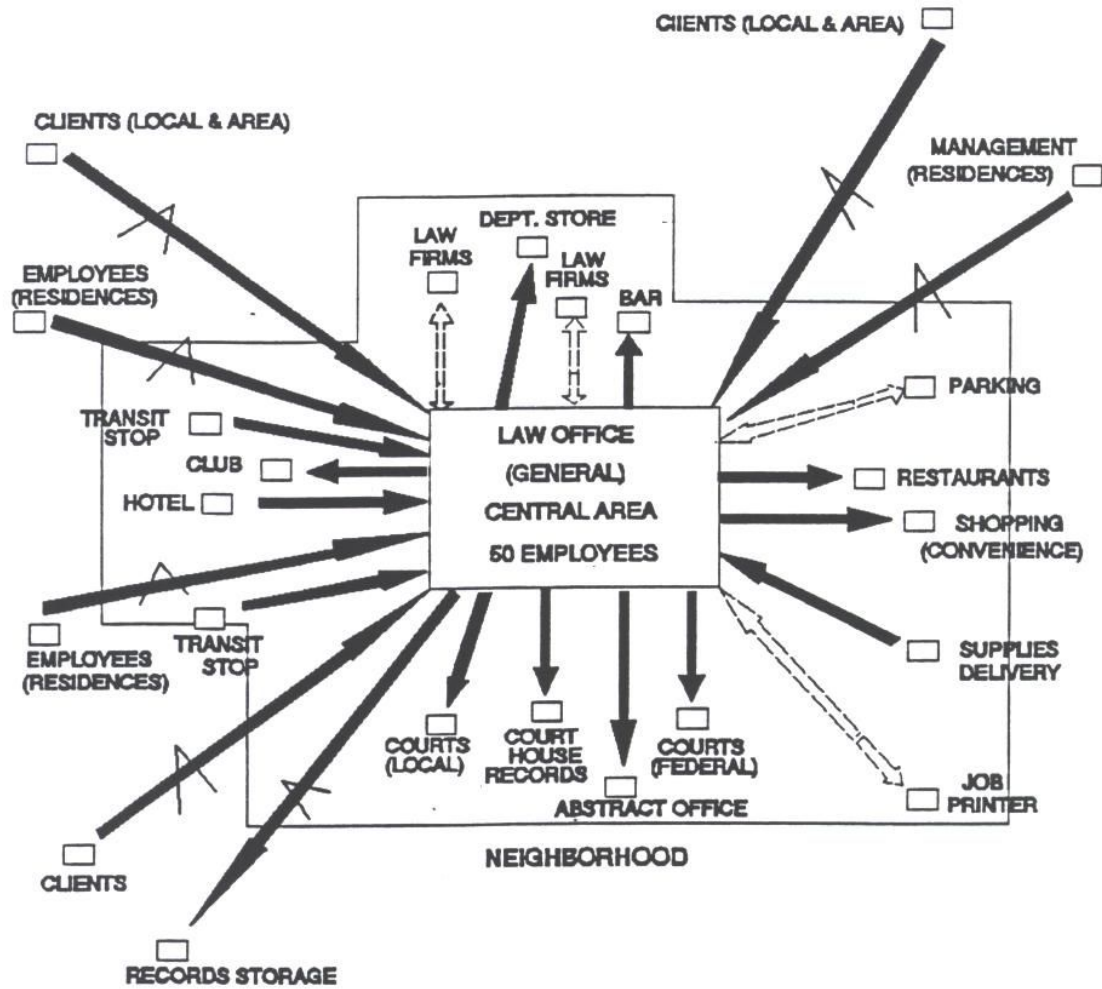
Source: Richard B. Andrews, *Urban Land Economics and Policy* (New York: Free Press, 1971).



SITE ACCESSIBILITY ORIENTATIONS BY RELATIVE TIME DISTANCES



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SITE ACCESSIBILITY ORIENTATIONS BY RELATIVE TIME DISTANCES



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Property Productivity: Location Determinants

- **Situs Analysis as a Land Use Predictor**
 - Definition: The total urban environment as it relates to a specific land use on a specific land parcel as they function in time.
- **A Process of analysis of the subject location**
 - Identifying activities in the area
 - Establishing the nature of associations between the activities
 - Identifying and analyzing the accessibility of the site to the surrounding area
 - Identifying and evaluating the total environmental impact of the area on the site use.

Urban Growth Structure Analysis

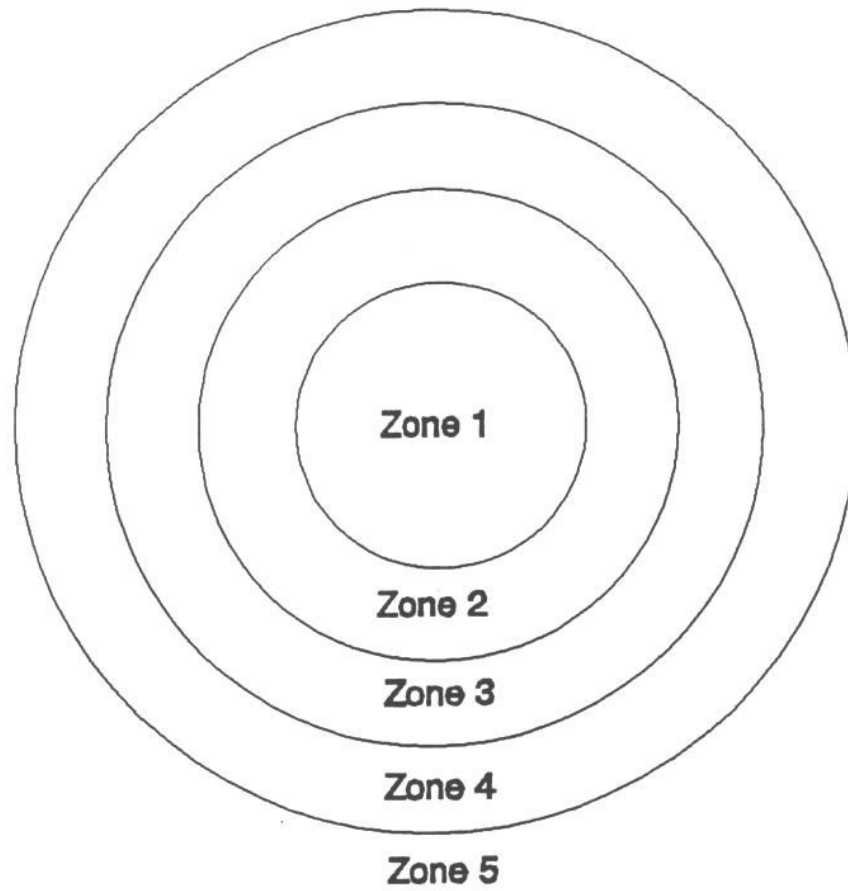
■ Theories of Urban Growth

■ Concentric Zone Structure

- Presumes five concentric zones that influence property use
- Presumes growth is outward from the central core.
- Can be a ripple effect from the center of major intersections of transportation arteries

■ Sector Structure

- Urban area will develop in sectors in which high, middle and low-income residents will tend to group
- High income groups will purchase the most desirable areas for their houses
- Middle groups will strive to join the upper-income groups
- Basic premise is that higher-income groups establish the general direction of urban growth
- Presumes that growth occurs at the urban fringe.



Source: Earnest W. Burgess, "The Growth of the City," in R.E. Park, et al, editors *The City* (Chicago: University of Chicago Press, 1925).

Legend:	
Zone 1:	CBD
Zone 2:	Transition
Zone 3:	Low-income housing
Zone 4:	Middle-income housing
Zone 5:	Commuting

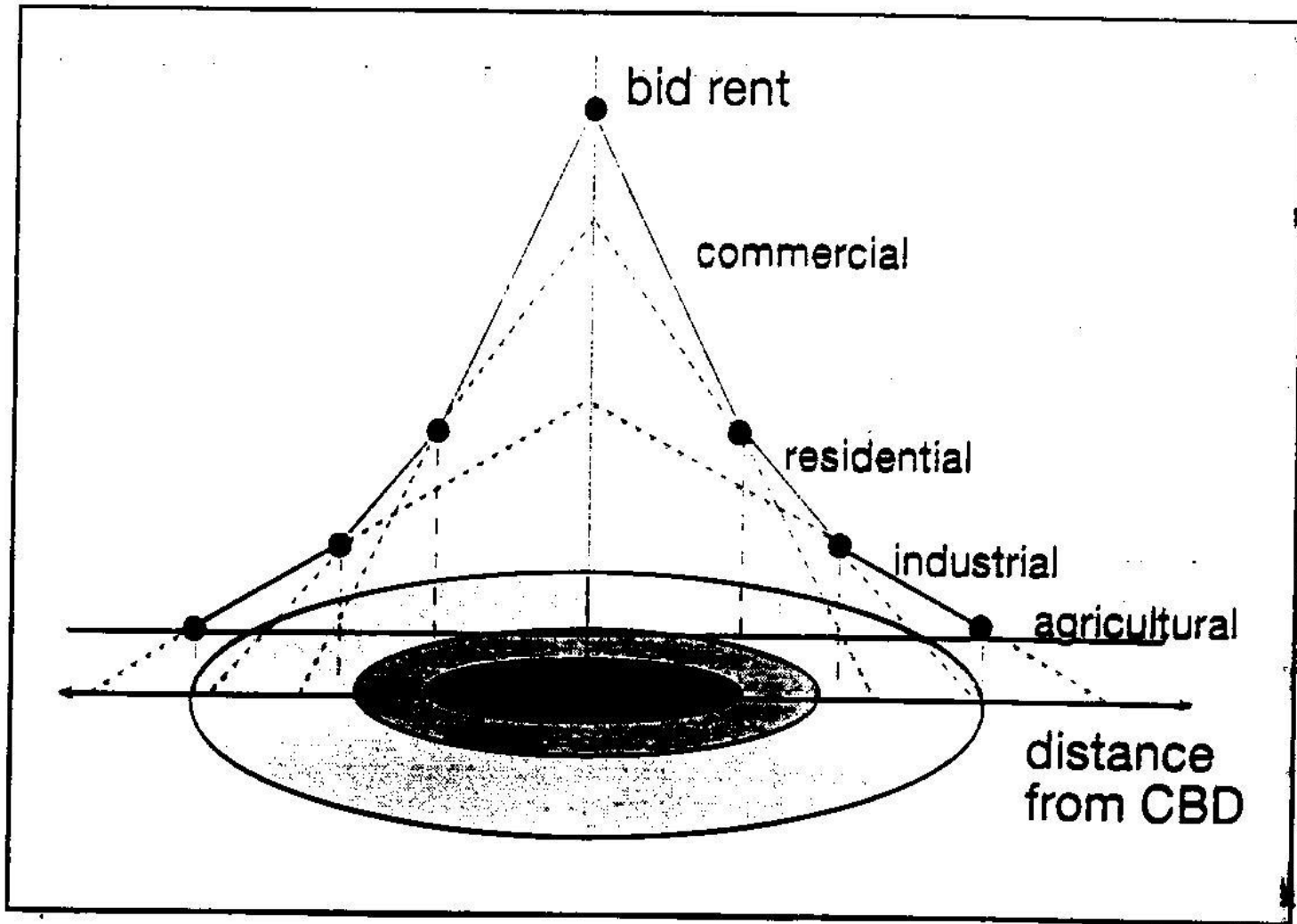
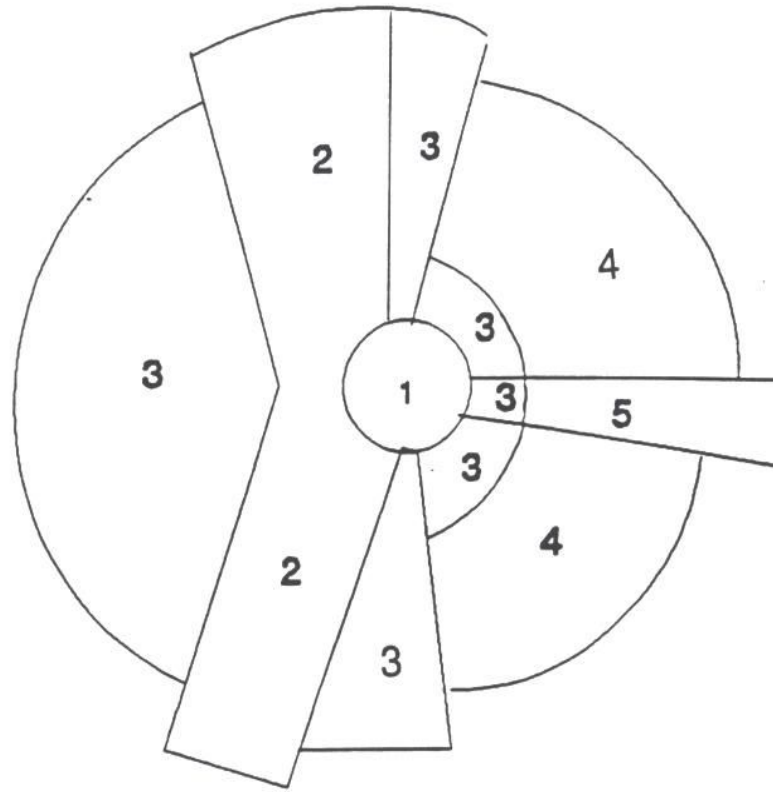


FIGURE 4.2
Bid-rent curves for urban land



Source: Homer Hoyt, "The Structure and Growth of Residential Neighborhoods in American Cities," (Washington, D.C.: F.H.A., 1939. U.S. Government Printing Office, 1939).

Legend	
1	CBD
2	Wholesale manufacturing
3	Low-class residential
4	Middle-class residential
5	High-class residential

Urban Growth Structure Analysis

■ Theories of Urban Growth

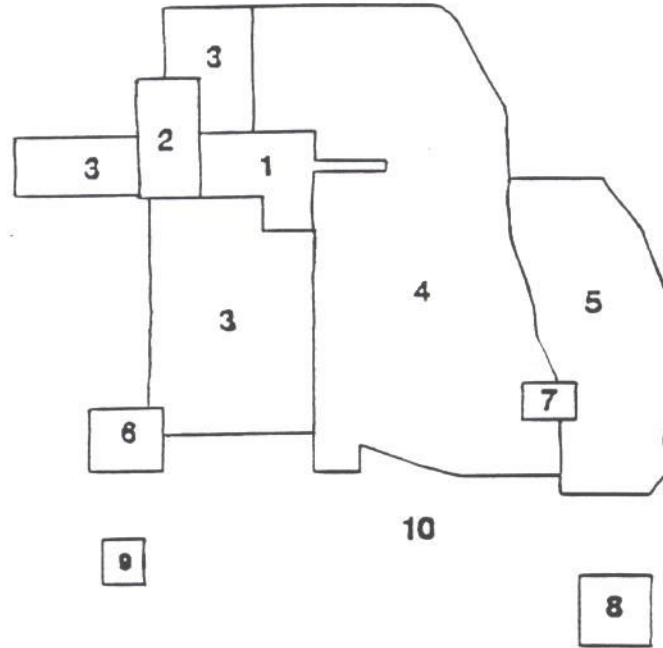
■ Multi-nuclei Structure

- Basic premise is that an urban area does not necessarily develop from a single core, but around several distinct nuclei.
- Presumes that land uses will locate to form nodes.
- Examples: harbors attract docks and warehouses, courthouses attract attorney's offices

■ Radial-Corridor Structure

- urban development often takes place along major transportation routes
- growth can be predicted based on the development of major transportation arteries

Multiple Nuclei



Legend:

1	CBD
2	Wholesale, light manufacturing
3	Low-class residential
4	Middle-class residential
5	High-class residential
6	Heavy manufacturing
7	Outlying business district
8	Residential suburb
9	Industrial suburb
10	Commuter zone

Source: C.D. Harris and E.L. Ullman, "The Nature of Cities." The Annals of the American Academy of Political and Social Science. Vol. 242 (November 1945), p. 13.

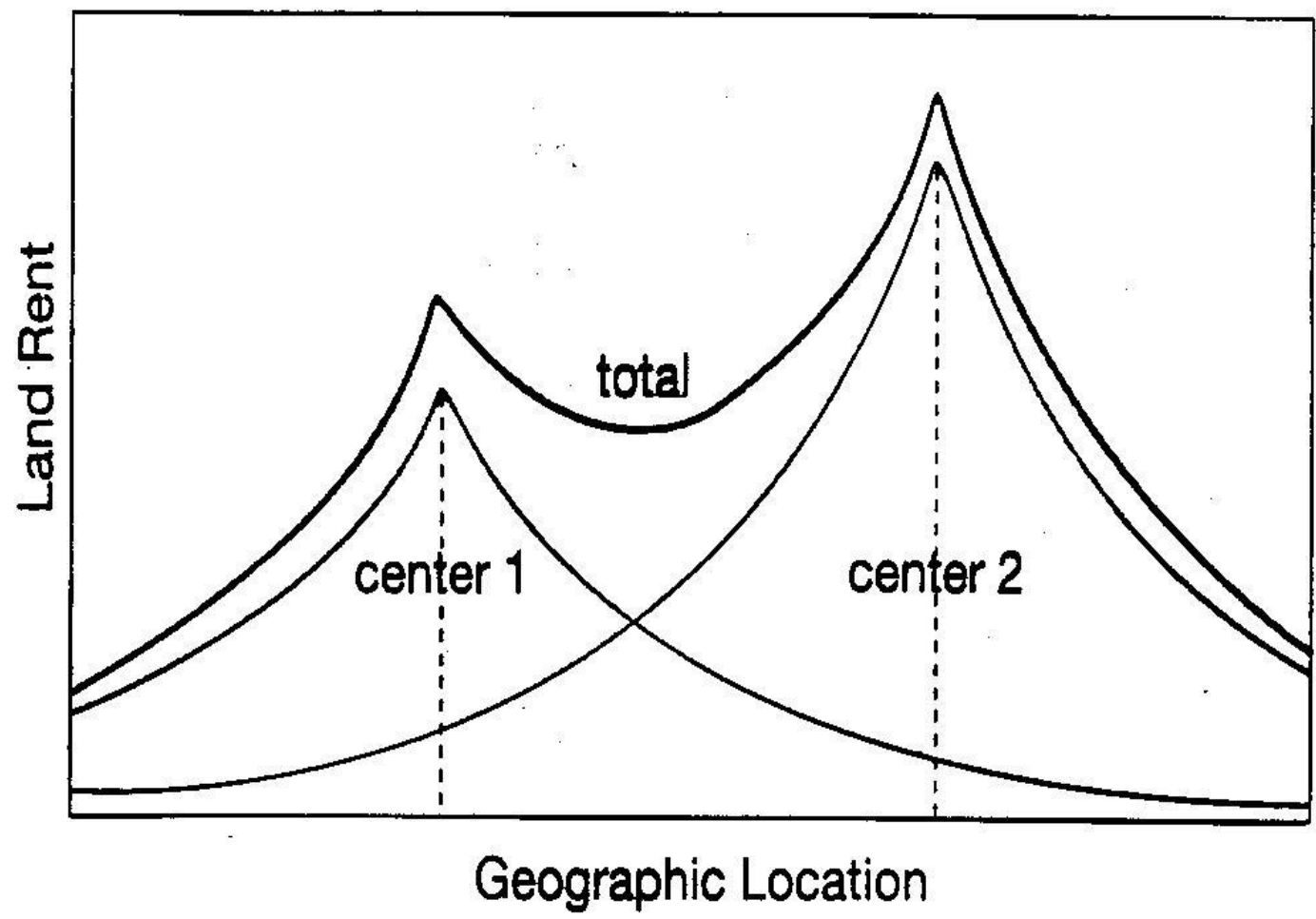
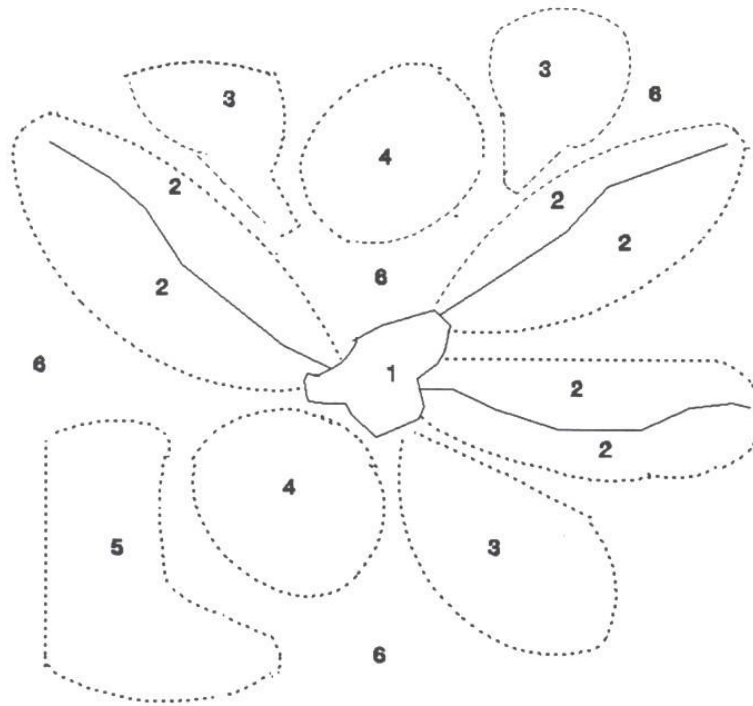


FIGURE 4.7
Land rents in a polycentric urban area

RADIAL-CORRIDOR STRUCTURE



Zone 1 Central Business District

Zone 2 High Intensity Corridor

- Manufacturing
- High-Density Housing (All Income)
- Retail, Office, etc.

Zone 3 Blue-Collar Housing (Moderate Income)
Moderate Density Housing

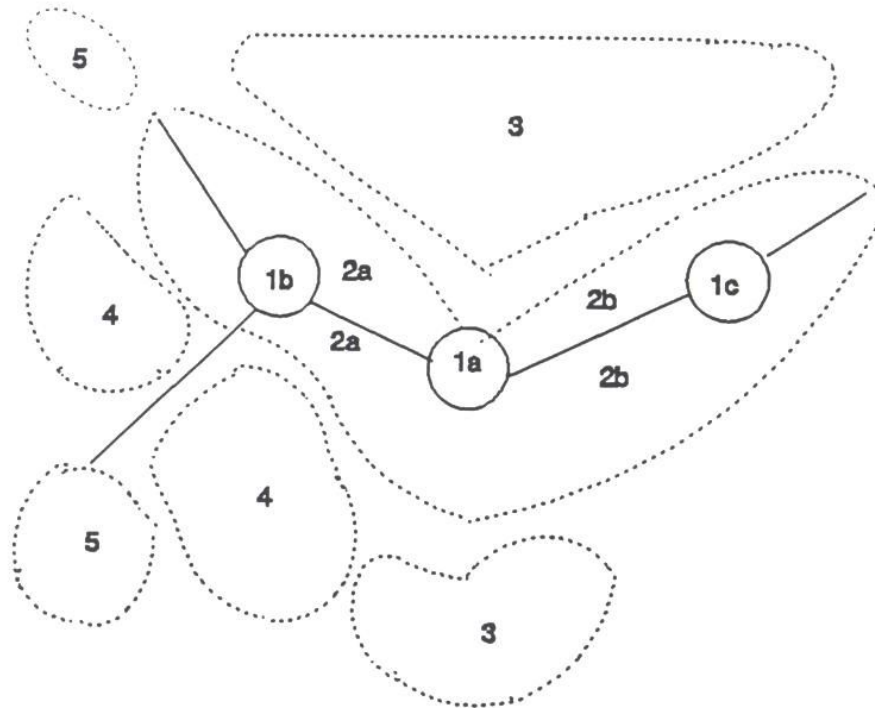
Legend

Zone 4 Middle-Income Housing
• Low Density Housing

Zone 5 High-Income Housing (Very Low Density)

Zone 6 Open Space/Agriculture

Current Trends in a Metropolitan Area



Legend

- Zones
- 1a Old Central Business District
 - 1b New Higher-Income Office – Shopping
 - 1c Lower Income – Shopping

- Zones
- 2a High Intensity Corridor
 - Light Industrial – Newer
 - High-Density Housing – Middle Income
 - Retail/Service – Strips – Newer
 - 2b High Intensity Corridor
 - Heavy Industrial
 - High-Density Housing – Low Income
 - Service Retail

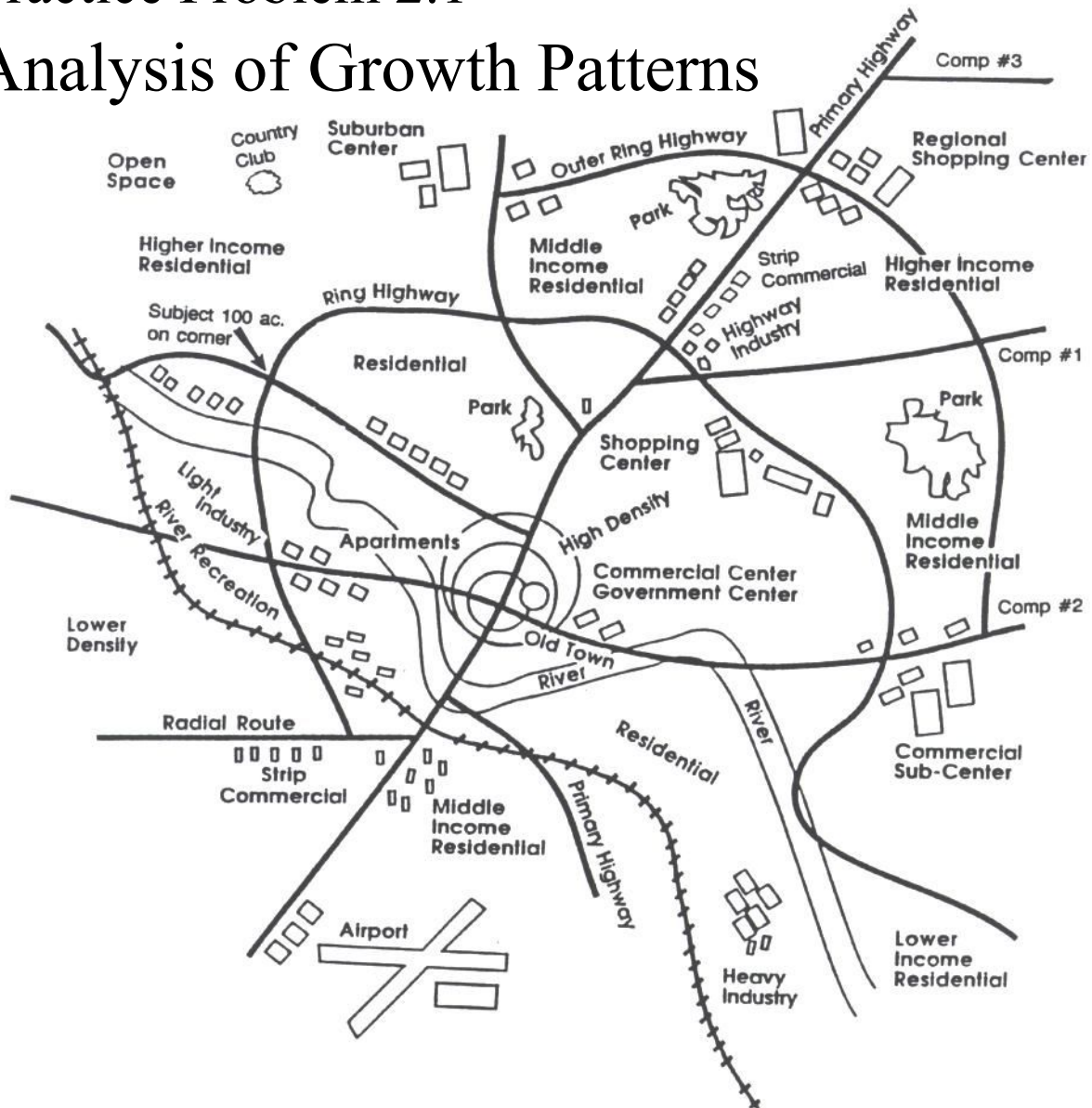
- Zone
- 3 Blue-Collar Housing (Low to Moderate Income)
Mixed-Density Housing

- Zone
- 4 Upper-Middle-Income-Housing
 - Including Neighborhood Support Retail
 - Mixed Density

- Zone
- 5 High-Income Housing (Predominately Low Density)

Practice Problem 2.1

Analysis of Growth Patterns



Market Area Concepts

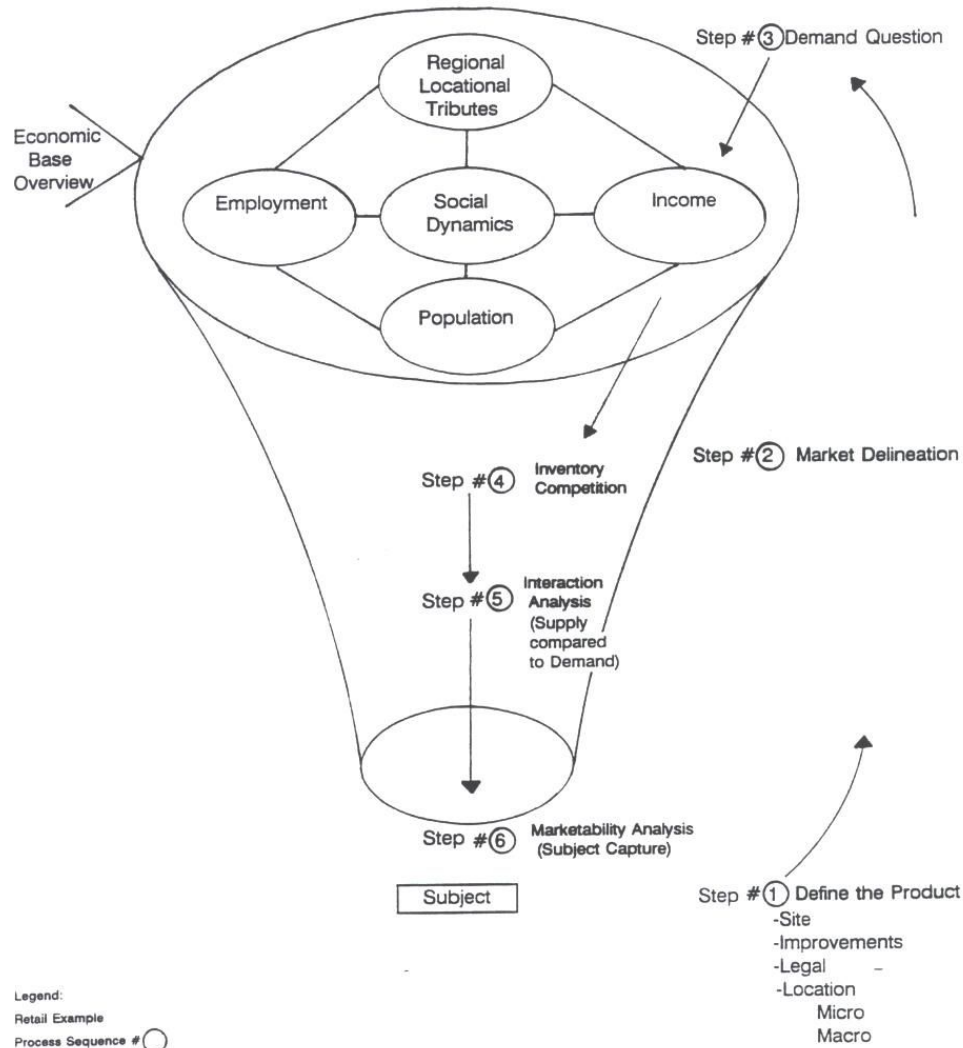
- Demand and Time-Distance Relationships
 - Most common way to define a market area
 - Example: Primary market area for a neighborhood convenience store is a five minute driving time.
 - Example: Primary market area for a outlet mall is forty miles or 1 to two hour driving time.
 - Principle of Substitution
 - The area in which equally desirable substitute properties compete with the subject can delineate a market area.
 - Population Projection Area
 - Must identify the area to be included in the projection
 - Projection area is different for different property types
 - How much of the market can I capture? *or*
 - What will be my market share?

Demand Concepts

Local Economic Analysis

- The Economic Overview
 - Provides the base data for analysis of the subject's market segment
 - Support for location analysis and the economic relationship to physical growth patterns
 - Helps to identify the demand segment
 - Provides data to check the secondary data and forecasts made by other professionals
- Demand Side Economic Variables
 - employment
 - population and households
 - income
 - housing
 - retail expenditures
 - spatial growth patterns

Relationship of the Local Economic Overview to the Marketability Analysis Process



Demand Side Economic Variables

- Employment
 - Total Employment for the Subject Market Area
 - By NAICS (formerly SIC) Code
 - Major Employers and Industries
 - Economic Base Analysis
 - Unemployment
- Sources of Employment Data
 - Regional Planning Agencies
 - Metropolitan or City Planning Agencies
 - University forecasting centers
 - Department of Labor for the State
 - Local Development Agencies

CALIFORNIA LABOR MARKET BULLETIN

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STATISTICAL SUPPLEMENT

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Prepared in cooperation with the Bureau of Labor Statistics and of the U.S. Department of Labor by the Labor Market Information Group, P.O. Box 826880, Sacramento CA 94280-0001, (916)

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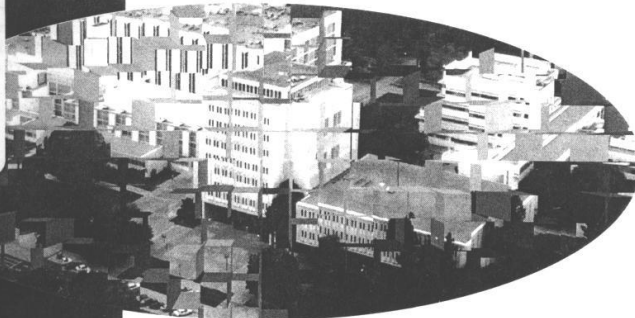
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Demand Side Economic Variables

- Population and Households
 - Population and Number of households and families, population in group quarters
 - Household: includes all the persons who occupy a housing unit
 - Family: includes a householder and one or more persons related to the householder by birth, marriage or adoption.
 - Composition variables
 - Age distribution
 - Education and Occupation
 - Income Distribution
 - Household Size
- Sources of Population Data
 - Regional Planning Agencies
 - Metropolitan or City Planning Agencies
 - University forecasting centers
 - Department of Labor for the State
 - Local Development Agencies

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CALIFORNIA
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Economic Forecast

**FOR SOUTHERN CALIFORNIA
AND ORANGE COUNTY**

**INSTITUTE FOR ECONOMIC
AND ENVIRONMENTAL STUDIES
SCHOOL OF BUSINESS ADMINISTRATION
AND ECONOMICS**

Demand Side Economic Variables

- Income
 - Mean, Median and per Capita Income
 - Income Distribution

- Data to Gather and Analyze
 - Number of existing housing units
 - New Construction
 - Types of existing and newly constructed housing units
 - Occupancy and vacancy data
 - Price level
 - Compositional data concerning the housing stock
 - size, age, style, stories, etc.
 - Mortgage interest rates and credit availability
 - Demolitions and net conversions

Demand Side Economic Variables

- Retail Expenditures
 - The retail SIC Codes (generally codes 44)
 - Characteristics of and differences among convenience, neighborhood, community, regional and super-regional shopping centers

- Data to Gather and Analyze
 - Sales by retail category or NAICS (SIC) code
 - Typical sales volume per square foot of space for different retail establishments
 - Tenant mix in successful shopping centers by type of center
 - The percentage of income spent by consumers on different retail products or spent in different retail establishments
 - Should prepare or obtain forecasts for expenditures by retail categories and changes in the purchasing power of the population in the study area

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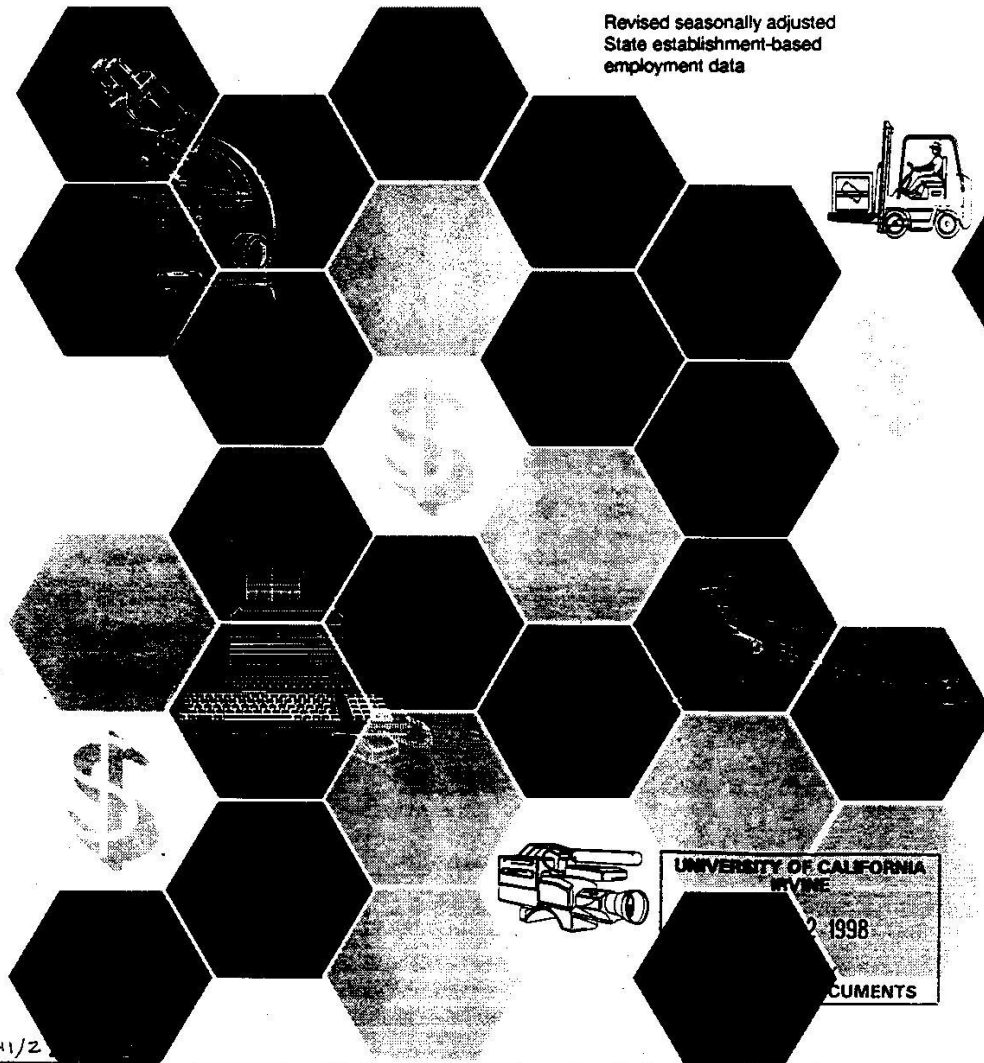
EMPLOYMENT AND EARNINGS

U.S. Department of Labor
Bureau of Labor Statistics
March 1998

In this issue: 1997 annual averages for
national establishment data

Revised historical seasonally
adjusted regional and State
labor force data

Revised seasonally adjusted
State establishment-based
employment data



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KATHLEEN CONNELL
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State Controller

EXECUTIVE DIRECTOR
E. L. SCHEENEN, JR.

Taxable Sales In California (Sales & Use Tax)

During 1995

Thirty-Fifth Annual Report

Santa Ana office
558-4350

Yours truly,
Sincerely,
Ernest J. Dronenburg, Jr.

11/14/96

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RETAIL SALES LEAKAGE ANALYSIS

Retail Sales per Capita (2001)

Item	Regional Total		Los Angeles Cty		Pomona		Leakage	
	Pctg.	Region	Pctg.	County	Region	County	In/(Out)	
							Region	County
Apparel Stores	394.54	4.9%	387.70	5.2%	71.90	1.6%	(322.64)	(315.81)
Gen. Merchandise Stores	1,244.71	15.5%	1,118.52	15.0%	397.54	8.6%	(847.17)	(720.98)
Grocery Stores	479.78	6.0%	436.82	5.8%	350.75	7.6%	(129.03)	(86.08)
Restaurants & Bars	1,034.39	12.9%	1,033.35	13.8%	567.84	12.3%	(466.55)	(465.51)
Home Furn. & Appliances	367.67	4.6%	348.29	4.7%	169.97	3.7%	(197.70)	(178.32)
Building Materl./Farm Impl.	642.99	8.0%	542.63	7.3%	641.74	13.9%	(1.25)	99.10
Auto Dealers & Supplies	1,611.19	20.1%	1,472.35	19.7%	1,131.23	24.5%	(479.96)	(341.12)
Service Stations	761.15	9.5%	741.30	9.9%	719.66	15.6%	(41.49)	(21.64)
Other Retail Stores	1,488.78	18.6%	1,397.72	18.7%	561.05	12.2%	(927.72)	(836.66)
Retail Sales Total	8,025.18		7,478.69		4,611.67		(3,413.51)	(2,867.02)

Demand Analysis

- Housing Market
 - Population forecast
 - Income
 - Household Size
 - Age
 - Rental versus owner-occupied
- Retail Market
 - Population forecast
 - Disposable income - available for retail sales
 - Household size
 - Spending patterns



Demand Analysis

- Office Market
 - Employment by NAICS and SIC codes
 - Occupied office space percentage
 - Occupied detached office space percentage
 - Typical size of occupancy

Supply Analysis

- Must be performed in relationship to the market that is being analyzed.
- For Example: the market for new residential construction
 - The Supply of New Residential Construction
 - Number of new residential construction
 - affected by: price of land, construction labor, financing, materials and risk
 - The number of builders in the market
 - Builders expectations about profits
 - Seasonality
 - The Supply of Resale Units
 - Economic factors such as employment and layoffs
 - Employee relocation
 - Reduction in household purchasing power
 - Family life cycle - changes in household needs due to maturing population
 - Mortgage interest rates
 - Price of substitute housing

Supply and Demand Interaction

- Indicators of Oversupply or Excess Demand
 - Vacancy (or occupancy) rates
 - Absorption Rates
 - Demand compared to supply that suggests an excess of supply (or demand)
 - Rising (or declining) prices and/or rents
 - Lack of Sale transactions
- Important Questions to Ask and Answer
 - Do the current trends in absorption, vacancies etc. make sense and support the demand and supply conditions?
 - What is the current stage of the real estate cycle?
 - How long might these observed conditions persist?

Summary of the Basic Concepts

- Property Productivity Analysis
 - Physical and market appeal attributes of the site and the structures
 - Legal and Regulatory constraints
 - Location attributes
 - Urban Growth and the forces that influence them
- Market Area Concepts
 - Time-distance relationships
 - Market or Trade Area (population projection area)
- Demand Concepts
 - Major economic variables
 - Employment
 - Population and Households
 - Income
 - Housing
 - Retail Expenditures
 - Spatial Growth paths

Summary of the Basic Concepts

- Supply Concepts
 - Stock of competitive properties
 - Changes in the stock
 - Influences on the supply of new construction

- Supply and Demand Interaction Concepts
 - The significance of equilibrium analysis
 - Indicators of disequilibrium
 - Vacancy rates
 - Absorption rates
 - Residual demand/supply imbalance
 - Price/Rent changes

Demand Side Economic Variables

- Housing
 - Housing or Dwelling Unit versus Structure
 - Housing Unit versus Household
 - Single-family detached versus single-family attached
 - Single-family versus multi-family structures

- Sources of Population Data
 - Regional Planning Agencies
 - Metropolitan or City Planning Agencies
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Feasibility Rent

Definition:

The rent (income) required to attract new construction for a specific property type.

Rent can be expressed in either monthly or annual amounts.

Feasibility Rent an example

Property Description:

50,000 square foot metal warehouse building
5 acres of land (217,800 sf)

Market Data:

Property Capitalization Rate				10.0%
Land Value	217,800	\$ 1.84	\$	400,000
Building Cost	50,000	\$ 16.00	\$	800,000
Vacancy and Collection loss				8.0%
Management				5.0%
Variable Expenses			\$	45,000
Insurance			\$	1,800
Taxes			\$	16,200

Feasibility Rent an example

Cost Approach:

Building Cost	\$ 800,000
Land Cost	\$ 400,000
Total Cost	\$ 1,200,000

Required Net Operating Income

Total Cost	\$ 1,200,000
times Overall Rate (Ro)	10.0%
equals Required Net Operating Income	\$ 120,000

Feasibility Rent an example

Effective Gross Income Calculation	
Net Operating Income	\$ 120,000
Variable Expenses	\$ 45,000
Insurance	\$ 1,800
Taxes	\$ 16,200
Total Expenses & NOI	\$ 183,000
Calculation of Management Charges	
Total Expenses & NOI	\$ 183,000
divided by 0.95	0.95
(Mgt Rate 1-.05)	
Effective Gross Income	\$ 192,630
Management Charge	\$ 9,630

Vacancy and collection loss calculation	
Effective Gross Income	\$ 192,630
divided by 0.92	0.92
(Vac & Coll 1-.08)	
Potential Gross Income	\$ 209,380
Feasibility Rent	
Potential Gross Income	\$ 209,380
divided by GBA	50,000
Annual Rent per SF	\$ 4.19

So That's

**Basic Concepts of Real Estate Marketability
Analysis**



Wayne Foss, DBA, MAI, CRE, FRICS, Fullerton, CA USA

Email: waynefoss@usa.net