

Retail and Real Estate Market Analysis

Purposes:

- Assess market feasibility for economic uses and type of development at specific sites
- Define target industries to attract to a community or development projects
- Determine market potential/recruitment targets for retail stores in commercial districts
- Improve understanding of customer markets for existing businesses to inform technical assistance and promotion work
- Inform zoning and project design for land use, project and site planning
- Feasibility analysis and planning for development finance institutions

Quantitative and qualitative methods applied in four broad steps:

- Demand side analysis
- Supply side analysis
- Analysis of special conditions, opportunities and market segments
- Integrate analysis to define target markets, type of development/products/services to implement, and level of unmet demand (e.g. net warranted space for retail uses)

Critical goal is to identify market gaps to fill

Analysis varies by demand generators for use:

- Retail real estate demand is driven by local income and spending
- Office and industrial real estate demand is driven by business and employment growth
- Demand for financial services can be driven by demographic factors, e.g. concentrations of low-income and immigrant population, or needs among niche businesses or non-profits

Supply side analysis also varies by development type and purpose:

- Retail market analysis focuses on competition from existing and future stores
- Office and industrial analysis focuses on competition from current vacant space and future projects
- Development finance market focuses on services and competition from banks and alternative financial institutions

Quantitative Retail Market Analysis

Demand Side Analysis

- Define market or trade area
- Determine number of households & Median/Mean HHI (US Census Data, BEA Population & Income Estimates)
- Determine aggregate spending potential
- Distribute for different product or store categories (Consumer Expenditure Survey)
- Can build more complex spending model tailored to different income and demographic groups
- Adjust for likely capture rate based on site location, normal leakage, etc.
- Square feet of retail space supportable by resulting sales (Dollars and Cents of Shopping Centers)

Supply Side Analysis

Site Specific Analysis

- Identifying competing stores in and near trade area
- Assess competitive differences between site and competing stores. Estimate level of sales at these stores and their market share from the trade area to indicate level of competition
- Consider planned or potential stores that may enter the market area—national and regional retail trends are important
- Based on this data, estimate the market share of trade area sales that a type of store at the site could achieve
- Calculate the dollar value of this market share
- Translate this sales level into supportable square footage. Use industry data on average sales per square foot for comparable stores.

Brockton Example: Questions and Critique

Community or district-level sales gap analysis:

- Interested in opportunities for overall community, neighborhood or business district
- Identify retail opportunities for a commercial district
- Collect total retail sales for store types for entire community from US Economic Census or project from an inventory of store square footage and sales/per square foot
- Compare to spending potential to estimate sales gap

Brockton Supermarket Community-Wide Analysis

Demand Side Analysis:

Primary Market Area:	Supermarket Spending
17,585 Households	@11.5% of HH Income
\$35,217 HH Income	\$71,200,000
Capture rate of 80%	\$56,960,000

Secondary Market Area:	
14,699 Households	
\$39,684 HH Income	\$67,100,000
Capture rate of 60%	\$53,680,000

Total Spending Potential	\$110,640,000
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Supply Side Analysis

1997 Census of Retail Trade:	
Grocery Store Sales in Brockton	\$130,307,000
Supermarket Sales in Brockton	\$115,208,000

OR PROJECTED FROM AREA STORES:

5 Stores with 243,643 square feet	
Imputed Sales @ \$500/sf	\$121,800,000
Sales Leakage or Gap	-\$11.8 to -\$15 million

Enhancing and Adjusting the Quantitative Analysis

- Serving special market niches or demographic groups can increase sales by expanding the market area served and/or change the market share achieved
- Is there a need to adjust total households for census undercount or recent population changes?
- Total income may need be adjusted by informal economic activity and EITC
- Informal economic activity may alter achievable market share for some store types
- How do trends in the market and competition effect the analysis and its conclusions?
- Is spending potential larger because you draw from a larger market area or additional market segments:
 - “Comparison goods” stores, agglomerations (e.g., many restaurants) or destination businesses that attract shoppers from a greater distance
 - Serving demographic group that bring shoppers from outside the trade area/community
 - Is there a significant “visitor” component to demand: employees, students, tourism, or other non-residents
 - Avoid double counting employees and students who live in market area
- Define size and spending potential in “visitor” markets segments for relevant store types: e.g., bookstores, restaurants

Qualitative Tools to Enhance Understanding and Test Ideas

- Inventory and analyze mix and location of businesses to identify agglomerations, comparison shopping segments, spatial relationships among stores and shopping patterns
- Analyze land and building inventory for advantages and constraints for certain type of uses or stores
- Surveys allow you to learn directly from customers and gain more detailed information. Survey data helps address:
 - Definition of trade area and competition
 - Identify important market segments served and underserved; generate customer profiles
 - Understand customer preferences, spending patterns and practices, especially for unique racial, ethnic or visitor groups
 - Gain customer feedback on existing conditions, potential improvements, or new store types, products or services
- Survey Types:
 - Intercept
 - Telephone
 - Mail

Lessons from Surveys

- Sources of competition are often different than perceived
- Identify agglomeration opportunities from key destinations
- Potential for new stores with no dominant destination
- Opportunities to expand local patronage

Qualitative Tools Continued

Key Informant Interviews

- Gain knowledge of market conditions and trends from “subject matter experts”
- Gain information on informal activity and niche markets for which little or no secondary data exists
- Test understanding gained from quantitative and survey analysis
- Build support and buy-in from key stakeholders
- Generate ideas and gauge support for future plans

Key Informant Methods

- Develop standard interview protocol; may vary by type of informant
- Create list of knowledgeable informants; make sure list is representative of community and markets you are studying
- Conduct and document interviews
- Summarize and analyze interview results

Focus Groups

- Same purposes are key informant interview
- Particularly helpful in developing and testing ideas or new products/services
- Helps gauge issues, priorities, biases among specific groups

Focus Group Methods

- Define type of focus groups to conduct (audiences)
- Recruit participants (6 to 10 is goal; need to invite 2x)
- Discussion questions/guide
- Separate moderator and recorder
- Summarize and analyze discussion results

Office and Industrial Market Analysis

Demand Analysis

- Profile economy to identify major sectors and industries in market area (Establishment-based data)
- Analyze job growth by major sectors and industries to identify where strongest growth and real estate demand exists
- Review data on absorption of space by type of use (Private real estate industry reports, e.g. Spaulding & Syle Report)
- Interview real estate brokers and firms in key industries to identify unique local conditions and location factors
- Analysis at both site/local and regional level
- Local goals and concerns, site issues and surrounding use are factors in deciding on potential uses and industries to target
- Generate findings on feasible types of space, target industries, and property types/characteristic
- Expected absorption of new space based on historic demand, economic trends, site and community location advantages

Supply Analysis

- Inventory total space, occupied space, and vacant space by type of use (office, industrial, R&D) private real estate industry report, directories, key property owners/brokers
- Collect data from planning officials on projects under construction and proposed projects that will expand supply

- Interview brokers, developers and economic developers to identify recent trends, large blocks of sub-lease space, market supply gaps, and perceived local strengths and weaknesses.
- Compare existing and planned supply to expected demand for each use
- Identify special needs, under-served markets and supply gaps that market is not serving
- Integrate supply and demand analysis to assess overall market potential for different uses, target industries or users, property/project characteristics

Discussion of Lyman School Analysis