

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

VII. INDUSTRY EDUCATIONAL COURSES - LONG TERM

F. U.W. Extension And Executive Development

10. Miscellaneous Undated Lectures Sponsored by  
U.W. Extension

- e. Untitled Lecture about Market Research  
and Market Feasibility given on the  
second day of a Real Estate Feasibility  
Seminar: See VII. G. 6. for more  
complete text from a similar lecture

# REAL ESTATE FEASIBILITY SEMINAR

## Second Day

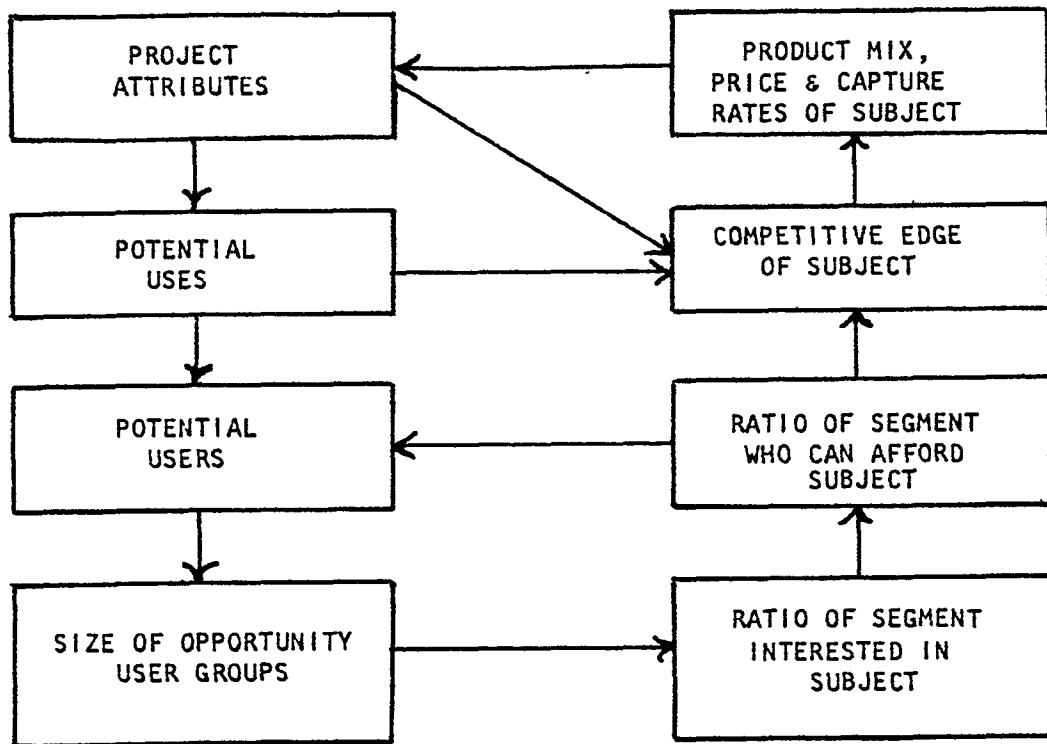
Presented By:

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- I. Although macroeconomic theory argues a tendency toward perfect competition, the individual project should be striving toward a monopoly. Market analysis is the research necessary to create and maintain a competitive edge in order to stabilize investment performance against the profit decline of perfect competition, against inadvertent clash with community attitudes, and against future user rejection.
- A. Given that premise, market research is risk management. The levels of market research would be:
  1. Intuitive positioning to reflect attitudes about the future long-term trends of society, demographics, the economy, etc.
    - a. For example, if government, education, and high tech are attitudes, then positioning might lead one to focus on state capitols with universities having technical rather than liberal arts emphasis.
    - b. Attitudes might be set by futuristic books such as Megatrends, Third Wave, or The Ten Countries of North America.
    - c. An old precept is "sell if everybody's buying, market to the gap that everyone overlooks." Thus market positioning might take an established idea in first and second tier cities and introduce it in the third and fourth tier cities.
  2. Next marketing would stratify within a narrow band of a broader demographic market of intuitive positioning.
  3. Stratification would consist of several segments of the broader band of preference (elderly breakdown or thirteen housing segments).
  4. Identifying issues and symbols which would trigger adverse reactions of the collective consumer.
  5. Evaluating demand/supply relationships to determine need for sensitivity to specialized consumer needs.
  6. Focusing the project to provide relief from anxiety, a reduction in physical discomfort, improved efficiency of an activity house, or improvement of self-esteem of the targeted user/customer group.
  7. Defining and controlling the window for presentation of the concept (the approach zone, the sales center office, the formal introduction and interview, etc.).
  8. Identifying alternative markets and basic product features necessary to permit marketing campaign for an alternative second course, a fallback position.

- B. The real estate project marketing program must keep in mind the features required to neutralize the collective consumer who might oppose entitlements, the features and codes which will motivate the space consumer at a price which provides financial viability, and the overall six strategic attributes to be marketed to the investor. At the very least market and merchandising research should be able to eventually produce a marketing program which suggests:
  1. Where the developer/investor should position his effort relative to demographic and economic trends given a desired scale of operation.
  2. The unmet needs in the marketplace in terms of most probable user groups, their total number, and their effective demand constraints.
  3. The time span of their effective demand in the marketplace
  4. The competitive standard product minimum required for entry into the market.
  5. The competitive product/service/margin necessary for monopoly advantage
  6. The project image most likely to neutralize collective opposition
  7. Essential media and themes required for promotion programs
  8. Financial parameters required to attract investors, mortgage or equity
- II. The first step is to reduce aggregate data about user groups which is plausible but overly general information to a scale which will focus on a sub-segment with a proper rationale or hierarchy. To do that requires an analytical model and in most cases, each situation requires the analyst to create his own model with which to structure the data available and to discover the missing links in the logic diagram which must be researched.
  - A. Models organize the analyst, the report, and the client
    1. Models explain what you are going to do.
    2. Models make relationships and key assumptions explicit.
    3. Models permit clients to understand logic of conclusion and to test his own set of assumptions.
  - B. A market research model should be careful to recognize?
    1. What are the questions
    2. What data is available which is relevant?
    3. What theory is available to focus data on the questions?
    4. How will the results be communicated?
    5. What are the abilities of the analyst?
    6. What is the cost benefit ratio between the model method and the question?

EXHIBIT I  
SEGMENTATION LOGIC TREE



- C. Market data refers to aggregate data, secondary information, the easy to acquire data from census tracts, traffic counts, building permits, and so on. It is useful to scale the size of the market potential, of the opportunity area but by itself aggregate market data is relatively unimportant to the success of most projects.

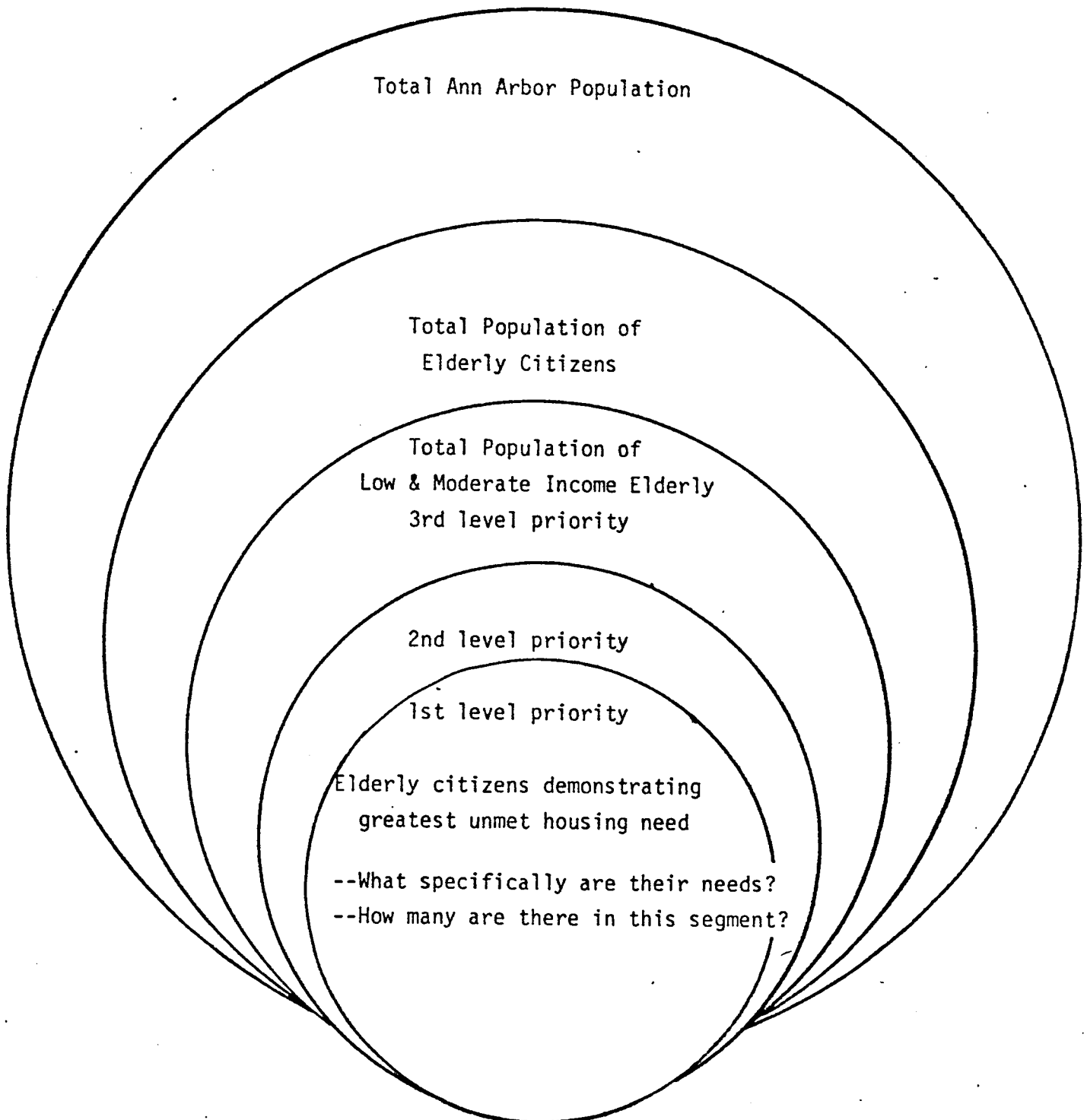
- D. Merchandising data is generally primary information generated by the analyst about specific competitive projects and specific user groups which will permit an estimate of what percentage of the opportunity group can be captured for a specific project.
  - 1. Absorption rates apply to aggregate market data to determine the total size or amount of market activity in terms of how many lots were sold, how many apartments in a rental range were newly rented, or how many square feet of leased office space were occupied.
  - 2. Capture rates are the product of merchandise research and are the ratio of the total opportunity potential which might be secured for a project or must be secured to achieve financial goals. The capture rate will reflect a careful judgment of product mix, amenities, pricing, and timing.
- E. A flow chart of the market research process is provided in Exhibit 1.
- F. Most multi-tenant or multi-user land uses are susceptible to a retail trade area model. A retail model is a device analogous to establishing a retail trade area perimeter for a super market to segregate households which have a reasonable probability of using the outlet from those who don't because of convenience, distance, age, or income. Thus the analyst should establish a preliminary hypothesis for:
  - 1. Primary market area to be served.
  - 2. Secondary market area to be served.
  - 3. Principal competitors.
- G. Consider Exhibit 2 as a simple market model to define the size of an opportunity area in a selected county for elderly persons requiring residential care units.
  - 1. For lines with asterisks the key ratios for reduction were derived from a survey of the elderly generating primary data for this county.
  - 2. For example, while 37% of the elderly were financially qualified, only about 60% of those were interested in considering a residential, minimal care facility or 22% of those in the conventional housing market - hence the reduction from 19,700 to only 4,200. This chart should have showed the ratios from the survey.
  - 3. Failure to convert serious interest into action was a round number based on experience of those which had marketed similar developments in the past, as was an allowance for potential customers coming from outside the county to be closer to relatives, etc.
- III. Market data provides a measure of potential scale of a market opportunity; the most important aspect of market analysis is forecasting the degree of market penetration or capture rate of remedial development.
  - A. To reduce aggregate market data to a merchandising hypothesis, the first clue to segmentation may be found in correctly understanding the essence of buyer motivation or of the activity to be housed.

EXHIBIT 2

FOCUSING IN ON THE VARIOUS SEGMENTS OF THE ELDERLY POPULATION

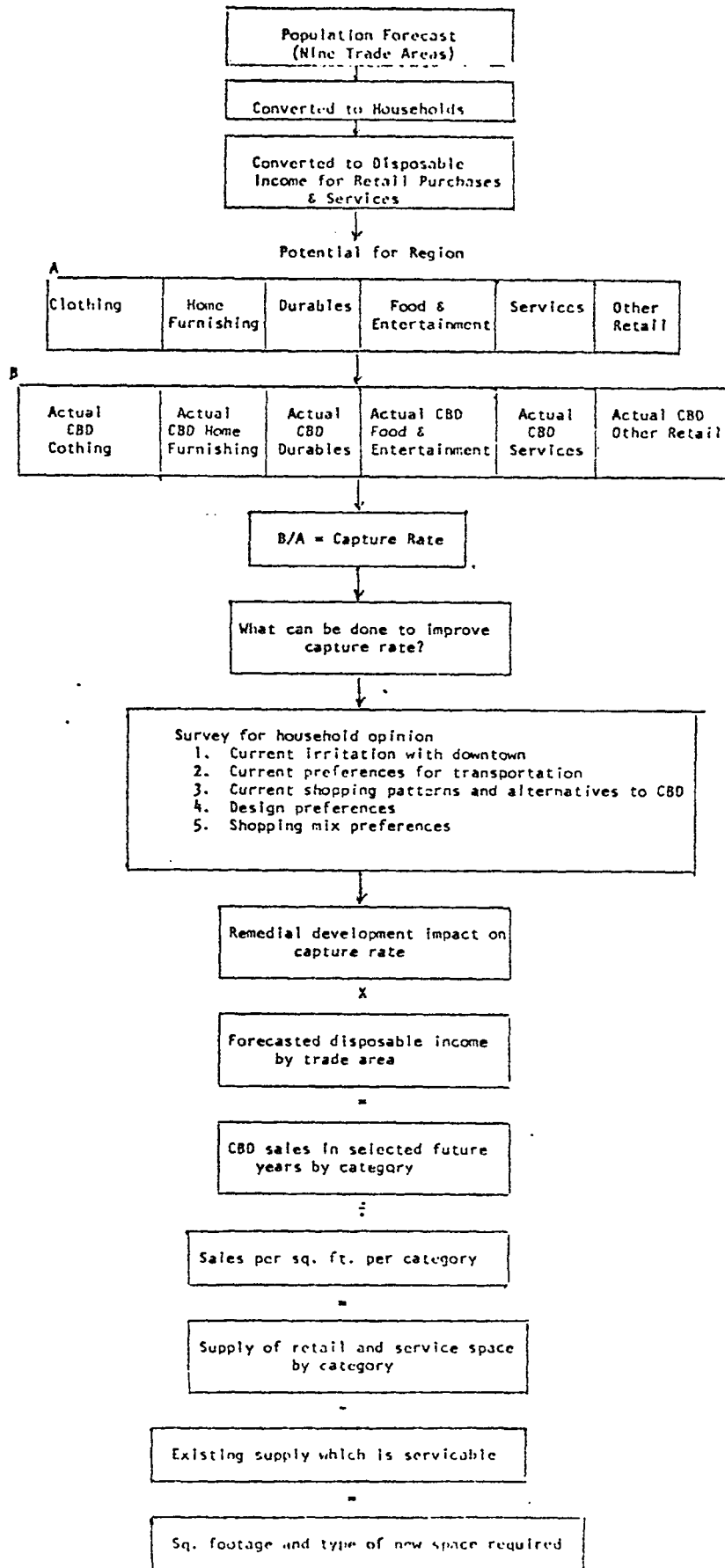
TO DETERMINE RELATIVE LEVELS OF HOUSING NEED

AND THE URGENCY OF THAT NEED



1. Retailing is a break point for goods (a warehouse grocery), or a service industry, or a theater using lighting, staging, and mood to reinforce a role played by the buyer.
  2. A restaurant may be to provide a quick food break (high turnover, pedestrian flow, conditioned ordering), or to provide recreational entertainment and consumption of an evening, or to provide a staging for business, social, or publicity roles.
  3. A motel for transients, for resorts, or for terminal traffic uses all of its facilities and location to sell a "room-night" of occupancy because that is an 80% gross margin. Anything done after that is justified by its contribution to "room-night" sales or its reduction of average cost to capture a customer per "room-night."
  4. The revenue unit may be related to the method of measuring profit of the project in question such as per acre, per camper pad, per event, per front foot of shoreline, per stool or table, etc., not to mention sq. ft., per frame at a bowling alley or per tennis court hours, or per hour of ice time.
  5. Sometimes the prospect is identified by who really signs the check for a particular type of real estate.
    - a. The salesman or the management paying his travel costs
    - b. The doctor or the clinic
    - c. The district manager or the corporate real estate manager
    - d. The ticket buyer or the promoter
    - e. The bowling league, team business manager, travel agency tour guide
  6. The market segment may be defined initially by the source for a prospective user list - people who share a common address, hobby, professional specialty or some other identifier.
    - a. A reverse directory or criss-cross telephone book
    - b. Building directories of comparables
    - c. Mailing lists of specialty publications
    - d. License number spotting
    - e. Guest registers
    - f. Charge account mailing addresses
- B. The objective of these approaches, revenue unit, the decision maker, the prospect list source, is to segment the user market to a specific and relatively small group of potential customers who can be surveyed to generate original and relevant information about their space needs and motivations. Unlike most consumer markets, the number of prospects is always low; think small!
1. Real estate is a series of micro-markets. A 24-unit building with one, two, three bedroom units has at least three sub-markets.
  2. A 24-unit building is a \$500,000 enterprise with a \$75,000 gross sales potential from only 24 customers!

# EXHIBIT 4





- C. A survey of existing properties and alternatives available to a selected market segment defines only the competitive standard - namely the minimum product and price necessary to be in the market.
    - 1. Comparison shopping further identifies where there may be gaps in the supply of alternatives, a market opportunity gap, or where the oversupply is so significant as to portend the last competitive alternative before bankruptcy - namely price cutting.
    - 2. Comparison shopping should not only identify the physical characteristics of the product and price but the nature of the promotion effort as well.
    - 3. Promotion comparison should consider pedestrian and vehicle approaches, model location, furnishings, and sales people.
    - 4. Review of the promotion campaign should reveal whom the competitors believe to be their prospect.
  - D. A survey of users, is designed to reveal or to identify the competitive differential attributes which would provide that monopoly element required of every successful project.
    - 1. A second product of consumer survey is the ability to develop locally relevant ratios which permit disaggregation of market data into market segments and the conversion of potential numbers of people into potential dollar sales over time.
    - 2. Survey questions to create ratios require previous construction of a market model hypothesis.
    - 3. Survey questions can discover latent political issues or provide a calm base for citizen input from those who rightfully dislike public hearings.
    - 4. Survey questions and execution should not be done by planners or appraisers.
- IV. A good example of modeling market data through segmentation and survey for renovation in a small community is a project by Gruen Gruen + Associates for Santa Maria, California. The study was begun in 1972. Project is operating as the Santa Maria Town Center with retail sales ahead of forecasts.
- A. The Gruen's were able to convince the redevelopment agency to avoid any physical planning until a detailed analysis of the demand for alternative services that could attract people back to the downtown area was done. This EMAS study (economic market analysis study) outline is in Exhibit 3 had the following outputs:
    - 1. First, a full analysis of economic data and retail data was utilized to generate information about the type of tenancies that could realistically be expected to penetrate downtown markets. (Table of Contents Exhibit 4)

## POTENTIAL MARKET SEGMENTS

- I. Singles -- Unmarried, active, mobile, many interests, entertain informally, few financial burdens, recreation oriented. Buy basic furniture, basic kitchen equipment, cars, stereos, and vacations.
- II. Young Marrieds, #1 -- Young couple, working wife, entertain informally, amateur gardeners, planning on family. Better off financially than they will be in the "family formation" future. Buy durables -- cars, kitchen equipment, furniture, and vacations. Rate housing as a need for more living space.
- III. Young Marrieds, #2 -- Discretionary income available, deferring family, active, entertain informally and often, some formal entertaining, independent, dual-person working household, do-it-yourself buffs, sports car. Rate housing as an investment.
- IV. Compact Family/Move Down -- Discretionary income available, interested in no maintenance, informal living, some formal entertainment. Away from home often, occasional visits from family or guests, focus on both active and passive recreation.
- V. Divorcees/With Children -- Family oriented activity, limited entertainment, informal lifestyle, limited maintenance.
- VI. Full Nest, #1 -- Home purchasing at its peak, even though liquid assets are low. Dissatisfied with financial position, and amount of money saved. Conscious of monthly payments, family activities. Unemployed female with numerous interests, mostly child oriented. Lifestyle is casual and informal. Interested in new products, buy washers, dryers, T.V.'s, baby food, dolls, wagons, etc.
- VII. Full Nest, #2 -- Family move-up market, as financial position gets better, some wives work. Interested in larger sized packages. The most price/size sensitive group.
- VIII. Established Family -- Making monthly payment comfortably, some discretionary income as more wives work, approaching peak of economic and social lifestyle curve, some formal entertaining, older children and teenagers, many interests.
- IX. Luxury Families -- Have arrived, tremendous discretionary income, very formal house, don't entertain often, but when they do, it's formal, dine out often, no maintenance, privacy mandatory.

- X. Empty Nester - Home ownership at its peak, more satisfied with financial position. Small or no debt. Family is often away from home, occasional visits from family. Mobile in attitude, but permanent in residence, near grandchildren, many hobbies, one child in college, one or two children married, self-sufficient couple.
- XI. Active Retired -- Still working two or three days per week, active either socially or politically in community or church affairs, self-sufficient, many hours away from home, do not entertain often, but when they do, it's semi-formal. Winter/summer residences. Likely to sell home before retirement.
- XII. Retired -- Drastic cut in income, dependent, limited activities outside community. Winter/summer residences.

- D. Consider the elderly housing market chart in Exhibit 2. Notice that the ratios required for market segmentation follow a logical reduction pattern. The analyst has made several working assumptions - namely that his market is over 65 and overwhelmingly from Dane County because these assumptions are both reasonable and conform to break-out points in the raw data.
- E. The ratio sought by the survey follow a precise reduction pattern:
1. How many will consider moving?
  2. Of those, how many would consider staying in town?
  3. Of those, how many would consider an apartment?
  4. Of those remaining who would consider an apartment in town, how many would consider a specific location?
  5. Notice the reduction process defines a subset of the elderly market - a micro-market.
- F. Each of these ratios suggests a specific calculation or perhaps a short table of statistics. The specific title on the table of data and its sub-columns should be written before the questions are drafted and the collection of data begun. Notice the research begins with careful definition of the questions to be answered. All answers become relevant and all unnecessary questions are avoided. These types of questions depend on knowing the precise character of secondary data available to which the ratios must be applied in the systematic model devised for the problem.
1. Confine vocabulary to basic 1000 words; avoid lingo.
  2. Structure questions to permit check-off, or branching to set up subsets. (See Exhibit 6)
  3. Always test the questionnaire on half a dozen prospects or friends to reveal misunderstandings before using on the market.
  4. Questions may take different formats. (See Exhibit 6)
- G. The second type of question is generally attempting to measure either anxieties or preferences. Both are dangerous survey areas for amateurs as well as professionals and it is often cheaper to subcontract these particular functions to consumer research specialists. Nevertheless, a little common sense can generate considerable useful information on the competitive edge.
1. Probe for dissatisfaction with existing space or life style.
  2. Probe for anxieties about uncontrollable trends and events.
  3. Probe for desired social structure ties, real or imagined.