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Assessing Market Potential

This note applies to the initial stages of developing a new property. It provides the basis for developing the design concept, and understanding the likely returns from a specific parcel of land. Five clear steps are described here.

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Property development planning and analysis is a multi-stage process, stretching from a design concept, to design specifications development, architectural designs, engineering design and then project plan. Only after the whole process is completed would the actual construction commence. To be able to define the commercial viability of a development, you are required to include an analysis of the market demand and preferences, and translate your findings into the design with respect to space distribution, tenant mix and facilities.

This approach outlined in this note is applicable to the absolutely FIRST stage, when the design concept would be developed and validated. It is thus a foundational stage, and must be carried out in a methodical manner. There are five clear steps as described:

1. Examination Of Market Trends

There can be four types of developments, namely – hotels, retail, commercial and residential. Some of the key issues that are relevant to all these segments include:

- Identification of catchment area
- Current stock – how many hotel rooms, or dwelling units, or how much retail space already exists in the catchment area; and how much of that is actually available for new purchasers/occupants similar to those being targeted by your own project.
- Growth rates – how fast is this stock growing, and why.
- Occupancy rates – Its not enough to know how the current stock, we should also know how much of that stock is occupied and what is the trend of occupancy levels. Local experts would be able to identify the factors affecting demand.
- Pricing model in use – buyer and seller preferences for outright sale/purchase versus leasing.
- Quality parameters being used to assess built up properties by customers
- Amenities being offered by major developments, and the physical configuration of developments.

2. Area Socio-Economic Trends And Demographic Characteristics

Socio-economic / demographic trends should be examined. The parameters important for each segment are discussed separately below:

<p>Residential properties</p> <ul style="list-style-type: none"> • Current and projected population • Number and size of households • Housing stock profile • Employment profile, income and disposable income 	<p>Retail commercial properties</p> <ul style="list-style-type: none"> • Visitor profile • Composition and time of visitor volumes • Spending pattern • Buying power • Buying behavior • Travel composition and flow
<p>Office commercial properties</p> <ul style="list-style-type: none"> • Worker profile • Population and locations • Commuting pattern • Nature of work • Level of income • Amenities and services of relevance 	<p>Hotel properties</p> <ul style="list-style-type: none"> • Worker profile • Population and location • Commuting pattern • Level of income • Amenities and services of relevance • Visitor profile • Composition and time of volumes • Spending pattern • Buying power • Buying behavior

3. Review Of Existing And Proposed Competitive Projects

A comparative analysis of development areas stratified by type of usage, to identify trends in the buildings under construction and awaiting approval.

The issues to be covered include :

- Location and age of facility
- Size of facility (acreage, number of units, square footage, floors, etc.)
- Type and quality of facility
- Amenities and services
- Occupancy rates
- Purchase, rental and leasing terms
- Types of occupants and/or visitors

Specific issues to be covered for each of the development areas are as under:

<p>Residential properties</p> <ul style="list-style-type: none"> • Shopping, transport and schooling facilities • Commuting pattern 	<p>Retail commercial properties</p> <ul style="list-style-type: none"> • Size and earning levels of catchment area • Property mix • Merchandise mix • Merchandise quality/price
<p>Office commercial properties</p> <ul style="list-style-type: none"> • Catchment area • Locations of business districts • Size of firms and nature of business • Amenities and services • Growth industries and requirements 	<p>Hotel properties</p> <ul style="list-style-type: none"> • Formats in vogue • Format population and visitor preferences • Collaborations/tie-ups/management agreements • Structure of demand • Rooms • Conference facilities • Other facilities • Number, size and duration of conferences • Structure of amenities to be offered

4. Determination Of Probable Capture

The successful commercialization of the property depends on the capture of both occupant and visitor activity by the proposed development controls, viz. Hotel (patrons), Retail commercial (operators as well as patrons), and Office commercial (occupants). The determination of possible capture levels is based on the information collected in the earlier steps.

For Hotel Properties:

Hotel patrons may be either residents, or those who visit specific destinations in the establishment or in the locality, such as restaurants, shopping facilities, health clubs, etc

A particular property would draw from high-traffic areas adjacent to it. Identification of the nature and location of such areas given a particular level and quality of hotel offerings would form a critical part in determining the market segments the proposed development would draw from.

For Office Developments:

In case of the office commercial development, discussions with a large sample of representative potential tenants must be undertaken to determine the likely market area of capture to develop a tenant profile in terms of :

- Geographical preferences
- Nature of business

- Growth drivers
- Preferences wrt amenities and services
- Likelihood to re-locate to the project if built now or later (say, five years)

The potential volume of business in this user segment would also have to be developed, with downstream sizing of the optimal size of public and private areas, as well as of the nature and level of services / amenities to be constructed.

For Retail Developments:

The market segments of capture to be examined include both the occupants/operators as well as the patrons of a particular location. The examination of operators is as per the Office commercial complex above. Examination of the patrons captured would determine the nature of the shopping experience in terms of :

- Merchandise mix preferences
- Arcade layout preferences
- Support facilities required
- Buying behavior

Based on the likely quality of the patrons, the development/purchase/lease rates can be determined.

5. Estimation Of Probable Capture Rates And Project Demand

Based on the capture profile developed above, the extent of capture of each segment can be determined through discussions with experts and projections based on survey findings. The nature and extent of capture for each of the proposed development areas should be estimated. Integrated projects (i.e. with multiple types of developments in the same complex) should be assessed by first assessing the individual elements separately, and then together to identify synergies that are derived by co-locating different elements in the same complex. The individual capture profiles shall thus be translated into a demand pattern that would provide inputs to the validation of the design concept.

About the Author

Atul Vaid's areas of expertise include strategy and business planning, market-entry consulting, organization development, and new initiatives development. He has extensive consulting and corporate experience with global firms, where he has handled a variety of assignments for clients in India, the Middle East, the USA and Japan; as well as cross-border engagements run remotely out of India.

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