

Place Dynamics was founded with a strong belief in market-informed planning and economic development. It is rewarding to us to see a growing number of communities, business districts, and developers express an interest in this approach. Our staff is often asked to help form a solid argument for a market analysis, to define the elements it should contain, and to estimate its cost. Here are our answers to a few of the frequently asked questions.

WHAT CAN A MARKET ANALYSIS DO?

A market analysis provides critical information needed to make sound decisions, rather than relying on assumptions. To a developer the market analysis helps in preparing a project pro forma or to determine if a development is feasible. In the planning process it helps to ensure that the community establishes an attainable vision and gives clues to the strategies that will be most effective. For economic developers the market analysis should indicate what business opportunities may be viable and identify potential targets for recruitment. In any case, the market analysis results in a more effective plan of action and a better return on investment.

WHAT SHOULD A MARKET ANALYSIS ADDRESS?

At its most basic level, a market analysis should provide a comprehensive assessment of current conditions and trends related to demographics, performance of the marketplace, and competition. It should determine one or more trade areas (depending on the uses considered) and be based on both quantitative data and the expert observations of an experienced market analyst.

- ✘ Demographic data should include prior trends, current year estimates, and projections for both population and economic variables. The market analysis can make use of psychographic profiles, or market segmentation data that attempts to classify households by similar characteristics related to their composition, interests, and spending patterns.
- ✘ Market performance data should include estimates of existing and future market potential, along with an analysis of where that potential is presently being captured. For retail, this will often be sales both in aggregate dollars and translated into the square footage that can be supported. For office and industrial uses it may include considerations such as the character of space (for example, class A and class B office space, or industrial or warehouse space), the area that can be supported in the market, and the prevailing lease rates. A residential market analysis will address the demand for rental and purchased housing by price and noting amenities desired by buyers or renters.
- ✘ Competition should be quantified (for example, how many lots in existing or planned subdivision, or the gross leasable area of competing centers) and reviewed by an analyst to assess its relative strength. Is the competing residential development in a more attractive environment? Does the competing shopping center lack a strong anchor? Can the nearby industrial park provide rail access? Observations like these are used to provide insight into the competitive advantages or liabilities of the study site.

A more extensive market analysis provides detailed insight into the opportunities that may be available. A tourism market analysis, for instance, may be expanded to include lodging sector estimates such as occupancy rates, and revenue per available room. A retail analysis may assess the likely transfer of sales from existing businesses if a new competitor were to open within the trade area.

WHAT SHOULD I LOOK FOR IN A GOOD MARKET ANALYSIS?

The first thing we tell people to look at is the data. There are a number of private vendors who can provide demographic and market estimates for about \$100. Too many consultants will simply re-package this information and call it a market analysis. The problem is that the purchased data, in our experience, almost always contains errors that can drastically misrepresent the true dimensions of the market. Common problems include underestimating retail spending and frequently over- or under-allocating expenditures to retailers in the market. Like others, we may draw upon third-party data, but we verify it and correct assumptions within it to determine accurate market metrics.

The second issue we have with many of the market analyses we see is that the consultant simply identifies where there is leakage, and then recommends those retail categories with the most leakage as the best opportunities for new businesses. This ignores many possibilities. Is there adequate capacity to support a new store, even when there is leakage? Does the district have a drawing power that would allow it to bring in new stores even with a sales surplus? Is there the opportunity to shift sales from competitors instead of merely relying on leaked sales? A good analyst will look beyond the numbers to assess what is necessary to support new stores,

where there is a competitive advantage, and where the market may be expanded to capture new sales. Much more than simply a sales surplus or deficit is used to evaluate opportunities.

The third thing we like to see is that the analysis does not limit itself to the simplest possibilities. Too many consultants focus solely on chain retail because it is simple. For \$1,000 they can buy a database of chain retail stores that lists their site selection criteria, pull off a set matched to the market, and pretend they have given you something of value. In reality, there is a lot more to "matching" your community to a retailer than simply picking from a list. Beyond that, there may be opportunities for new independent retailers or regional chains not in the database, and opportunities for local businesses to expand their product lines to capture new sales. These should be identified in the market analysis.

DO I NEED TO CONDUCT SURVEY RESEARCH?

Most market analyses rely on a review of economic and demographic information along with the expertise of the market analyst. Survey research can greatly improve the understanding of conditions in the area. There are two basic types of survey research; intercept surveys which capture information about the people shopping in the store or district, and trade area surveys which are typically conducted as mail surveys to households or businesses in the region.

An intercept survey is ideal for finding out information such as where customers are coming from, what stores or activities bring them into the area, or their impressions of the district. Although it provides considerably less detail, just collecting customer zip codes can be a form of intercept survey research. Trade area surveys are useful in that they will gather data on households that do not shop in a district, as well as those who do. These surveys can identify where people shop for a variety of needs, and why they do or do not shop in the district being studied.

WHAT SHOULD I BUDGET FOR A MARKET ANALYSIS?

The answer to this question really depends on the complexity of the project. Factors that go into determining a cost include:

- ✧ Project area - whether the analysis will cover a site, a district, or a community
- ✧ Markets to be analyzed - if the analysis is one type of use or multiple uses (i.e., retail, office, industrial, lodging, housing, etc.)
- ✧ Complexity of the marketplace - the degree of competition, overlap, and interaction with other centers. For example, a stand-alone rural community is less complicated than an inner-ring suburb of a major city.
- ✧ Detail to be included - specific forecasts, detailed build-out analysis, and other data beyond the scope of a general analysis will add to the cost.
- ✧ Accessibility - for any consultant, there is a cost of travel, but even the most distant sites should not add more than a couple thousand to the cost.

One of our competitors sells a package that promises a market analysis and list of targeted retailers based on the community's demographics. This service is often priced at \$50,000 or more. Frankly, we are always amazed that anyone would pay so much, and believe it may be the result of not shopping around for alternatives. This is not a price you would expect to encounter except in large urban areas. A market analysis for a single site may typically run from \$5,000 to \$10,000. For a small community or a business district in a larger community, the pricing may start around \$7,500 and extend upwards. A rural community of 15,000 to 25,000 residents might expect to budget about \$15,000 to \$20,000 for a market analysis and accompanying retail strategy. Survey research may add another \$3,000 to \$5,000 to the cost. Here are some examples from our recent work:

- ✧ Best use analysis for a developer to recommend a mix of market-feasible uses for an 80-acre suburban site (\$6,000)
- ✧ Hotel feasibility analysis including revenue and occupancy projections, tier and amenities, and recommended site, to be used by an economic development agency as a recruiting tool (\$13,000)
- ✧ Downtown market analysis and retail strategy in a small rural city to identify opportunities for retail and restaurant uses, and advise the community on strategies for recruitment (\$7,500)
- ✧ TIF market analysis to assess potential and pace of development for retail, office, light industrial, and residential uses (\$12,500)
- ✧ Market analysis to measure impacts of a new big box retailer on existing businesses in a community at the edge of a larger metropolitan area (\$10,000)