

A Note On Real Estate Marketing Research

*Emil E. Malizia**

Abstract. Although the principles of real estate market analysis are more readily accessible due to the publication of several recent volumes, the topic has yet to be grounded properly in the broader marketing research field. Building on the appraisal tradition, the professional market analyst strives for an objective assessment of market comparables and trends to arrive at a thoughtful and informed opinion of economic feasibility on behalf of the client developer, investor, lender or landowner. However, the purpose, form and content of real estate marketing research vary considerably during the development process. This note presents a broader view of marketing research relevant throughout the real estate development process in contrast to formal market analysis conducted during one stage. It should help real estate researchers adapt their thinking to the emerging reality in which marketing research conducted by sophisticated development organizations grows in volume and importance.

The Development Process

Although no description of the development process applies to all projects, the following stages usefully summarize the general sequencing [9]:

- Stage 1: Idea inception
- Stage 2: Idea refinement
- Stage 3: Feasibility
- Stage 4: Contracts
- Stage 5: Commitment
- Stage 6: Construction
- Stage 7: Completion

Marketing research conducted during Stage 3 is often the purview of the professional market analyst who renders an objective opinion on the proposed project based on systematic market research. As part of the assessment of feasibility, the formal market analysis should include a market study that considers supply-demand relationships of one market or market segment and a marketability study that estimates project absorption given the expected amount of market absorption [5],[8].

The formal market analysis serves several related purposes. Either the developer turns to the professional market analyst for an objective second opinion about the project idea, or the lender/investor requires an objective arm's-length analysis as part of the due-diligence review of the project. When joined with the financial feasibility study, the market analysis helps the developer determine whether to proceed to Stage 4 when contracts are drawn.

*Real Estate and Economic Development, University of North Carolina—Chapel Hill, CB #3140 New East Building, Chapel Hill, North Carolina, 27599-3140.
Date Revised—May 23, 1990; Accepted—August 24, 1990.

The recent literature on the subject can be consulted to describe the market and marketability study. For example, see Barrett and Blair [1], especially chapters 2, 4 and the case studies, Carn *et al.* [2], Clapp [3], especially Parts I, II and III, and Myers [10]. See also Clapp and Messner [4] and Vernor [11].

Clearly, real estate marketing research encompasses a broader range of activities than those reflected in formal market analysis. In practice, the developer uses marketing research to arrive at the project idea (Stage 1), to refine the project idea (Stage 2), to develop the marketing strategy (Stage 7) and, if the project is held in the developer's portfolio beyond completion, to reposition the project at appropriate points in time.

Real estate marketing research in Stage 1 is an exercise in synthesis and reduction; a funneling process where experience and information together may lead to insights about profitable possibilities. The development company screens project ideas given the objectives and competencies detailed in its strategic plan. To identify attractive ideas, the developer typically uses a wide range of information and creative problem-solving methods. The developer's information base often draws on in-house expertise as well as outside research on macroeconomic trends, demographics, preferences, technology, space use, locational factors and the like. At the end of Stage 1, for example, the developer may have decided to create warehouse space in Kansas City. Although the process is frequently nonlinear and even serendipitous, this disciplined examination of information pertinent to space markets qualifies as legitimate research.

By the end of Stage 2, the developer has either rejected the project idea or identified a specific site and determined the basic functions and features of the project at that location. For example, the developer may have optioned a properly zoned site in a preferred local jurisdiction in the Kansas City metro area and worked out the scale, preliminary layout and site plan of the warehouse project. During Stage 2, the developer generally engages in the marketing research activities described below to refine the project idea.

- Scan the environment to identify the relevant competition in the area and the preferred state and local jurisdictions.
- Assess the general market conditions, neighborhood and political attitudes, zoning and general plan, available infrastructure, physical suitability, and asking price for each available site identified.
- Gain control of the appropriate site.
- Define the market area.
- Analyze competing projects to determine what is selling and the public's reactions to recent projects.
- Study existing and potential space users to identify market segments and the benefits important to each segment.
- Relate benefits to alternative project functions and features. Move from market segmentation to identify the market niche to be served.
- Formulate the preliminary project design at the selected site. Plan product differentiation to meet the competition and capture market share.

Stage 1 and 2 activities are illustrated in the case study presented in the Appendix.

Finally, the developer formulates and implements a marketing strategy for the project during Stage 7. Here, marketing research from prior stages of the development process is built upon to formulate the strategic plan and budget to sell or lease the space that has been designed to achieve customer satisfaction. The most useful previous research is that which

identifies the target market segments, describes the specific benefits attractive to each segment and details how the project's functions and features provide these benefits. The tactical elements of marketing include advertising, public and realtor relations, sales education and operations, promotions, product merchandising and follow-up to close on leases or sales contracts. If prior marketing research proves correct, the space will be easier to sell or lease in Stage 7. If project scale, price and timing are on target, the developer will spend far less time and fewer resources on promotion and sales activities. On the other hand, sloppy market analysis or the absence of marketability research will require time consuming and costly sales and marketing efforts during Stage 7 (see [12]).

Often, specific marketing research activities are repeated throughout the development process. For example, comparable methods, techniques and information sources are applied to estimate market demand during different stages of development. Similarly, the analysis of competitive projects is repeated to find attractive geographic areas (Stage 1), to select an appropriate site (Stage 2), to estimate project capture in the market analysis (Stage 3), and to determine the best way to position the project relative to the competition for the marketing effort (Stage 7). What distinguishes real estate marketing research throughout the development process is its changing purposes and applications rather than methods, techniques or data.

To summarize the major distinctions in the initial stages of the development process, Exhibit 1 compares real estate marketing research during Stages 1 and 2 to the more familiar Stage 3 market analysis that is part of the formal feasibility study.

Exhibit 1 Real Estate Marketing Research During the Initial Stages of the Developing Process

Phase:	Idea Inception (Stage 1) Idea Refinement (Stage 2)	Feasibility (Stage 3)
Lead role:	Developer	Market Analyst
Approach:	Strategic	Systematic
Context:	Either the general use or geographic area may be known	Both the specific use and site are known
Orientation:	Entrepreneurial: Rigorous study to learn about real estate competitors, products and locations	Professional: Objective, independent study to research developer's project idea
Purposes:	Use knowledge for advantage and opportunity in the market	Use research to control risks and to present project ideas to other players; provide developer with an objective second opinion
Outcome:	Determine the most attractive site and project design that may satisfy the market/market segment.	Market study: forecast market absorption. Marketability study: forecast project absorption schedule, capture rate and stabilized NOI

Conclusions

Although this note demonstrates the relevance of marketing research principles to real estate, these principles rarely have been presented in the real estate context. Marketing and marketing research exist in a world of large, established operating companies and offer ways for companies marketing a wide range of consumer and industrial products to a multitude of market segments to manage demand ([6],[7]). In contrast, the real estate industry has been dominated by small entrepreneurial concerns that pursue bricks-and-mortar investment projects. Indeed, in examining the development process, traditional marketing and marketing research procedures do not appear highly relevant until Stage 7 when construction is ending and ongoing operations are beginning. During the completion stage, the developer uses prior marketing research to formulate the strategic marketing plan and budget.

Important changes underway in the development industry will increase the relevance of marketing principles throughout the real estate development process. Although smaller development entities will continue to pursue entrepreneurial projects, large sophisticated, multilocal development companies will become increasingly dominant space providers. Such development organizations, often coventuring with major investors or tenants, will scan space markets globally to identify attractive locations, will use sophisticated marketing and sales techniques to test the attractiveness of possible projects, and will have the resources to hire or commission in-depth research. Moreover, such companies will integrate marketing research with their strategic planning process to help determine whether and how potential projects individually contribute to the overall corporate mission and strategic objectives.

One fundamental change already upon the industry is a direct result of overbuilt space markets. Short-term speculation is giving way to long-term strategic investment, and asset management is becoming an integral part of the development process. Properties are being viewed as going concerns that need to be managed as business enterprises. Property managers are depending on marketing principles and procedures as they compete to satisfy space users' needs. In this environment, marketing and marketing research are best conceived as coordinated activities implemented through the development process.

References

- [1] G. Vincent Barrett and John P. Blair. *How to Conduct and Analyze Real Estate Market and Feasibility Studies*. New York: Van Nostrand Reinhold, second edition 1988.
- [2] Neil Carn, Joseph Rabianski, Ronald Racster and Maury Seldin. *Real Estate Market Analysis: Techniques and Applications*. Englewood Cliffs, N.J.: Prentice-Hall, 1988.
- [3] John M. Clapp. *Handbook for Real Estate Market Analysis*. Englewood Cliffs, N.J.: Prentice-Hall, 1987.
- [4] — and Stephen D. Messner, editors. *Real Estate Market Analysis: Methods and Applications*. New York: Praeger, 1988.
- [5] Anthony Downs. Characteristics of Various Economic Studies. *The Appraisal Journal* (July 1966), 329–38.
- [6] Philip Kotler. *Marketing Management: Analysis Planning and Control*. Englewood Cliffs, N.J.: Prentice-Hall, 1984.
- [7] Donald R. Lehmann. *Marketing Research and Analysis*. Homewood, Ill.: Richard D. Irwin, 1989.
- [8] John McMahan. *Property Development*. New York: McGraw Hill, second edition 1988.

- [9] Mike Miles and Charles H. Wurtzbaach. Risk Analysis in the Real Property Development Process. *Journal of Business Research* 6:1 (1977), 1–33.
- [10] Dowell Myers. Extended Forecasts of Housing Demand in Metropolitan Areas. *The Appraisal Journal* 55 (April 1987), 266–78.
- [11] James Vernor, editor. *Readings in Market Research for Real Estate*. Chicago: American Institute of Real Estate Appraisers, 1985.
- [12] William N. Webb. Building Success in Real Estate Marketing and Sales. Unpublished paper, April 1989.

Appendix

An Example of Marketing Research in Stages 1 and 2

To elaborate and clarify marketing research conducted in Stages 1 and 2, this appendix contains a case study of that process. The case study is based on discussions with Noah Long, President of the Trion Group and other members of his staff, review of market studies for the Atlanta office market, and field research. It is organized around four basic questions that the developer must answer to move a real estate idea successfully through the first two stages of the development process.

- How did the developer identify the location and general use and select the site?
- How was the public interest satisfied?
- Which market segments were to be served?
- How did the developer refine the preliminary project design such that the product would attract the market and meet the competition?

How did the developer identify the location and general use and select the site?

1. Developer's Objectives and Competencies

Prior to 1980, Noah Long and Ted Kromer were employed by Cousins Properties, a large Atlanta-based commercial developer. Long had started as a construction manager after a tour in Vietnam where he had done construction work for the Navy. As head of Cousin's shopping center division, he had retained Kromer as his architect on several regional mall projects.

In 1980, Cousins reorganized to move from a product development company doing retail, office, land development, etc. to a vertically integrated company organized by function: marketing, finance, development, and management. Long became the Executive VP for development, and Kromer became VP for development. Therefore they were in charge of all product types.

About one year later, Long and Kromer decided to leave Cousins and form Elkay Properties, Inc. (the name combined the initials of their last names—Long and Kromer). They initially developed several retail and office projects in Nashville where both partners had extensive contacts. Based on their prior experience with Cousins and their knowledge of the Atlanta market, however, they were confident that they could successfully develop office space in Atlanta.

2. Environmental Scanning

During the 1978–1983 period, the suburban Atlanta office market was booming. Long and Kromer wanted to provide competitive office space somewhere in its northern suburbs.

They became attracted to the Cumberland submarket about ten miles northwest of Atlanta's CBD at the intersection of Perimeter (I285) and I75. At that time, about 10% of the 60 million square feet of suburban office space was located in the Cumberland area. Elkay leased office space at 2675 Paces Ferry Road, one exit west of the I285-I75 intersection, immediately south of I285.

Long and Kromer studied the submarket gaining first-hand knowledge of the area as tenants and space users on Paces Ferry Road. From this location, tenants had good access to other suburban office nodes, the downtown area, the airport, and suburban housing in different price ranges. The submarket was located in Cobb County, a government supportive of development with reasonable development regulations.

In 1982, Long and Kromer made the decision to develop Class A-office space in the Cumberland submarket. Although there were many developers and projects in the area, they focused on Trammell Crow's Atlanta-based partners. They were developing Overlook located 1/2 mile south of their offices on Paces Ferry Road and Galleria near the I75-I285 intersection and across from Cumberland Mall, the center of the submarket. During 1982 and 1983, Galleria II and Overlook II were under construction.

In summary, Long and Kromer had confidence in their idea to develop an office project in Atlanta. Their competitive strengths included:

- development experience in Atlanta office development;
- confidence in the local jurisdiction;
- first-hand knowledge and understanding of the submarket and the user requirements of Class A office space.

3. Site Selection

In 1983, Long and Kromer sensed an opportunity when they saw a for-sale sign on the property next door to their offices. The land, owned primarily by black families, was unzoned and improved by very poor housing. Long wanted to buy all parcels which amounted to over 14 acres to pursue the office project idea. He began to work with Lorena Irons, the listing agent, to get property owners to agree to sell the 37 parcels. The titles ran back to 1865 Homestead Act land grants, and the chains of title were extremely complex. The only workable approach appeared to be a master agreement to sell all parcels at one time. Irons convinced the owners, which included several estates, to sell. Elkay also approached Felix Cochran, who owned 2.5 acres within the tract, about selling his land.

After helping Ms. Irons every step of the way, Elkay was set to buy the land on a negotiated basis. Unexpectedly, Ms. Irons put the assembled property out to bid. Elkay lost, bidding \$2,000/acre less than the winner who was a local broker.

The broker had sixty days to close the deal. He went to Felix Cochran to find the money. Cochran referred the broker back to Elkay. Elkay put together a partnership to close the deal: Elkay held the majority interest; Cochran and the broker owned the remaining interests. As buyer, Elkay negotiated contracts and closed on the land in September 1984. The site was purchased for \$4.5 million.

Long had begun discussions with several construction lenders active in the Cumberland submarket during the months preceding the land closing. He established a good relationship with a loan officer at CALFED which had an office near Cumberland Mall. Long wanted financing for the land purchase to be followed by a construction loan in the \$25 million range.

In summary, Elkay was high on the Cobb County site for several reasons:

- good access to Cumberland Mall (7 minutes at noon) yet ingress/egress easier than Galleria;
- easier access to Hartsfield Airport (30–40 minutes) compared to other suburban submarkets north of downtown because this segment of I285 was less congested than I75 or I85;
- access and proximity to a range of housing in northwest Atlanta.

How was the public interest satisfied?

4. Public Interest Issues

Elkay benefited from the earlier battle between the Crow partners developing Overlook and the Vinings Historic Association which took up the cause of the neighbors living in the Paces Ferry Road area. The opponents reached an acceptable agreement to restrict high-density/non-residential development to the area west of Overlook towards I285; the subject site was on the west side of Overlook nearer to the I285 intersection.

The land acquisition was one of the first neighborhood buy-outs in Atlanta with 37 parcels closed simultaneously. The sellers had money in their pockets; Cobb County was rid of a slum, and the neighbors were satisfied. Cobb County granted the O&I zoning requested for the land.

Zoning in Cobb County was not based on density. In the O&I zone, the height limit was 4 stories plus additional height waivers based on other attributes of the site. There were also height limits imposed by the site's proximity to Dobbins Air Force base. A building on this site could be 12 stories above its parking deck.

Elkay *re-platted* the site into three parcels and presented a site plan that met all Cobb County requirements. More restrictive subdivision regulations did not come into play because the land was already subdivided.

Which market segments were to be served?

5. Product Refinement

Elkay began with an understanding of the supply of buildings for Class-A space users in their submarket. Having defined their primary competition as Overlook and Galleria, they wanted to attract the same type of tenant but were searching for the right combination of specific functions and features to give them a competitive edge. During this time, Atlanta was attracting the regional HQ staff of most major corporations. In addition, a number of growing companies had located their national HQs in Atlanta.

The Cumberland submarket had attracted a healthy share of Atlanta's office absorption during the 1978–84 period. HQ tenants were showing a preference for suburban space while tenants with a heavier mix of professional occupations—law firms, accounting firms, engineering and design firms, investment firms—favored the Lenox/Buckhead or Central Atlanta submarkets which were closer to major banks, government facilities and similar professional service firms.

Elkay wanted to begin construction quickly but received an unwanted Christmas gift: CALFED notified Elkay that it would not proceed with its construction loan commitment on December 24, 1984 and exercised its option to withdraw from the project under their

buy-sell agreement. Elkay secured an interim land loan from Metropolitan Federal of Nashville, Tennessee that took out CALFED. Ten months later and without a permanent takeout, Long got a non-recourse construction loan commitment from Heller Financial. Metropolitan Life eventually provided the permanent financing in 1988 after the building was completed and substantially leased.

As a result of the change in construction lenders, the project, named Paces West, was delayed until October 1985. The project moved ahead during 1986 on schedule and within budget. In February 1987, the CO was received.

During 1985–86, there was intense competition for office tenants in the northern submarkets. Elkay decided to pre-lease the space through Coldwell Banker. A major success occurred in January 1986 when Home Depot signed its seven-year lease for their national headquarters. Home Depot moved into floors 3–7 in April 1987. Fahlgren and Swink signed a lease for the dramatic top-floor “penthouse” space which enhanced this ad agency’s public relations image.

Home Depot’s workforce consisted of a broad range of employees. Computer technicians, advertising accounts executives, national buyers, accounting clerics, and the secretarial pool accounted for most of the 900 employees. The few top executives had ample housing choices near the site. The other employees needed more reasonably priced housing. Since Home Depot had moved from a nearby location in North Atlanta, no major relocation of employees was required. Most of them enjoyed reasonable commutes from Marietta, Smyrna and lower cost areas to the north and west of Perimeter.

How did the developer refine the product to attract the market and meet the competition?

6. Market Capture

Elkay wanted to make a powerful architectural statement to compete with Overlook which lacked architectural unity and Galleria which had a unitary design. The key features included unified phased development, a compact site plan, one U-shaped driveway in front, and three rear parking decks and the three building roofs at the same level. (This last feature was added after Phase I was completed.) The plan also called for the buildings to be tied together on five upper floors by 6,000 SF bridges. (Home Depot is expanding vertically, as well as horizontally, into the second building.)

The developers also planned to offer Class A office space priced just below Overlook and Galleria. They would spend money on areas that tenants would see, touch and experience daily, that is, the lobby, elevators and rest rooms; they would economize on the skin by using precast granite aggregate. The developers also had the know-how to increase the efficiency ratio of the building compared to Overlook and Galleria. As a marketing tactic, they planned to discuss these features with prospects to explain how Paces West could offer the tenant lower rent.

Several features of the project would increase tenants’ access to their space. The floor plate was smaller than Overlook’s and Galleria’s which decreased distance from the elevator core, but with the bridges that eventually were to connect the three buildings, the development could offer up to 88,000 SF on one level. This feature offered expansion potential that was a key attraction for large prospective tenants. Finally, the sunken parking decks that followed the topography accommodated the on-site parking requirements and provided easy tenant and visitor rear access without extending above the office buildings’ second floors.

Contrasts Between the Formal Market Analysis and Prior Marketing Research

In deciding to build Class A office space on the site, Elkay began by analyzing the relationship between project scale and project costs during Stage 2. The size of parcel, its physical features and the zoning regulations provided one set of constraints, but the more important issue was the expected market depth and speed of absorption. Their market analysis led them to plan a phased project in a three-building configuration. Phase one would offer 252,000 SF to the market.

Elkay initiated discussions with CALFED about a land and construction loan in 1984. CALFED was active in the Cumberland submarket and knowledgeable of the Atlanta office market. In June 1984, Long hired Hammer Siler George of Atlanta (HSG) to do a formal market study of the 252,000 SF project on Paces Ferry Road. Long and Jeff Wingfield, who ran HSG's Atlanta office, had worked together on several Cousins' projects in the 1970s. They agreed that the study was to be completed within two months. Elkay presented the HSG market study to CALFED in early September and secured the financing to purchase the land.

The scope of the HSG study was directly related to its purpose and intended use, and its content was responsive to the needs of the client (Elkay) and the expertise of the customer (CALFED). Thus, the report contained no market overview since both client and customer were very familiar with the Cumberland submarket and Atlanta office real estate. The project absorption and capture forecasts in the market analysis focused on the construction and lease-out period after which a permanent lender or investor was expected to take out CALFED. Finally, the analysis emphasized marketability issues, in particular the capture rate, lease-out period and supportable rent levels.

As the case study clearly indicates, the developers pursued serious marketing research prior to the formal market and marketability studies. Yet their research was neither systematic nor exhaustive. Although wanting to see their environment clearly, they were not overly concerned about objectivity. Nor did the developers follow a tidy sequence of steps or established procedures to arrive at their conclusions. However, much of what they did was rigorous, disciplined and organized analysis that qualifies as legitimate research.

Elkay was seeking advantage and opportunity in the marketplace. The marketing research was designed initially to uncover an opportunity and subsequently to refine the idea by making it both more specific and increasingly attractive. The research during idea inception and refinement also helped Elkay control project risk by analyzing project scale and preliminary design before committing substantial amounts of time and money to the idea. Elkay maintained a strategic posture throughout; knowledge was not sought for its own sake but to beat the competition. Their research was not conducted to corroborate another opinion but to learn something new about the market that would lead to success.