



The Market Study

An essential component for any new development

by Thomas A. Gump and Ryan Jones

Editor's Note: This continuing column will take the Minnesota Real Estate Journal's readers through the life of a mixed-use development project -- from start to finish. It uses the Stone's Throw project, a newly developing, 634-acre community in Northwest Hennepin County, as its real-life example of the issues and challenges facing today's developers.

With the changing housing market, developers are faced with greater uncertainties and greater competition than ever before. Developers face many challenges including land assemblage, financing, product positioning, planning approvals, ever increasing municipal fees and ultimately market cycles. Successful developments are not always guaranteed and they require extensive research and support – market studies can help.

Market research can add value at almost every level of the development process. In the beginning of a project, market research can assist with the initial site analysis before a developer purchases the property. Market Research is designed to minimize a developer's risk and maximize their return. In most cases, lenders require market



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studies before financing is secured. Lenders are in the business of determining risk and want to be convinced that they will see a return on their investment. During the development process, market studies often contribute data that is used to generate traffic and environmental studies. Market studies are also used by developers to determine the price at which they should sell to their customers.

This column discusses the importance of market research and addresses what developers should be looking for from a market study. It then presents the type of housing information and market research that is being used in the development of the Stone's Throw community.



Ryan Jones

What should a developer look for in a market study?

Every development is unique and every development requires individual attention. There is no push button report that a research firm could offer and that a developer would want that would make sure that all the developer's questions are answered. There are certain fundamentals that a developer should look for in any market study. These are:

- What is the current state of the housing market (economics, demographics and housing activity)?
- What is developer's "target market area" and how does it compare with

the overall market?

- What are the demographics of developer's target market?
- Where is activity occurring and what product type is possibly under-supplied or for that matter . . . over-supplied?
- Where is the housing inventory, lot inventory and future inventory?
- How will the resale market affect developer's project?
- Who is developer's competition and what are they building?
- What type of absorption can the market support given developer's proposed product, pricing and costs?

A market study can provide a developer with a complete and thorough analysis of its target market area and address the feasibility of its proposed product. Detailed analysis of comparable developments and market conditions helps developer make informed decisions on product type, pricing and amenities. Effective research can also help a developer determine potential market share and forecast absorption for the life of a development.

Types of market studies available in the Twin Cities

There are various market research firms in the Twin Cities and each offer different services. A developer can pay tens of thousands of dollars for a market study that will be individually prepared for a particular site. Sometimes such reports will include the researcher conducting in-person interviews with potential builder end-buyers. These types of studies are not only expensive, but also can take up to several months to complete, but depending on the

project, this type of report may be justified.

Other services provide general demographic and housing information listed by county and these services typically updated their data quarterly, with smaller update reports being published in between the quarterly reports. These types of services are more cost effective and quicker; however, the information is more generic. Sometimes these services include information on both townhomes and single family units (though some services report the townhome information in a separate reference binder, which is an additional cost unless the subscriber has a package deal). Information on apartments and condominiums are not included in these services' information; so developers of this product type must rely on the individualized reports (at least at this time) or perform their own market research (which all developers should do – in conjunction with the services they use).

Stone's Throw use of market studies The developers of Stone's Throw use a market research firm called "Metrostudy." Its reports are published quarterly. Metrostudy's software allows the developer to draw the circumference around the area it wishes to study and the circumference does not have to be a perfect circle, but rather, it can be any sort of shape. This is a great feature for the Stone's Throw project, since the project's borders touch five different municipalities. The Metrostudy reports also breaks out in its data the supply (in months) of the vacant developed lots in the subject study area and this is important to

the Stone's Throw developer, since it is selling developed lots to builders.

Ongoing market research

As the economy has changed and housing inventory levels have increased, forecasting demand has become progressively more difficult. The Twin Cities housing market is fundamentally strong and will continue to support smart growth. The cost associated with quality market intelligence is minimal when a developer often has millions of dollars at stake. In previous years market research was sometimes overlooked by many in the industry. It was just something their lender required them to get. However, in today's highly competitive environment it is critical that each component of a project be on-target.

Think of a market study as a trial run for a proposed development - providing a confirmation or admonition to a developer's expectations. The difference between a successful development and un-successful one is not just about the location or the product, it's about expectations. What are a developer's expectations for a particular project and do those expectations match up with those provided in the market study ordered?

Tom Gump, an attorney and development principal with The Beard Group, Inc., the developer of Stone's Throw, invites comments and questions about this column and the development.

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