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The Market Study

By the end of the 1990s, the market study had beco
entrenched as a critical part of the land developm
process for two reasons: minimizing project risks and obtaini
financing. The market study attempts to justify the need fo
proposed residential development in a chosen area. It allo
you to evaluate buyer characteristics, location, and site attr
utes to produce a strategy for targeting specific kinds of pot
tial buyers. With a good market plan you can provide th
with the best product possible.

Consider the market study essential if you want to und
stand the nature of acquisition capital and development loa
increased competition, government regulations, and chang
population characteristics. Knowing the market means you
offer the intended buyers the type of community and ho
with the most appeal.

Why Do a Market Study?

Historically, developers relied primarily on intuition, mimi
ing their own and others' past successes to determine the ty
and location of new projects. In the late 1940s, the largest
get market—returning GI's—was so lucrative that most de
opments and housing types focused solely on it. For alm
15 years this favored market changed only slightly in its ch

acteristics. Inexact approaches to defining the group's needs usually did not produce negative results because demand was so high. A growing economy and money supply, along with ample available land, only increased overall confidence, resulting in a much smaller budget and schedule for marketing.

Early residential market studies frequently took the form of a buyer preference survey that determined what buyers thought desirable or undesirable about their newly purchased homes. The responses were used in making decisions about new developments.

Another early market study consisted of basic questions forecasting housing supply and demand in a future year. The result usually did not move much beyond determining a forecasted number of units in a given price range for a certain year in order to decide how many units to offer in a new project. The decision was based on predicting the number of households within a given income that would require housing (estimating demand).

Now the shift seems to be from studying what has been successful in the past to predicting what will be successful in the future. You must study the unique and changing characteristics of a particular kind of buyer to better tailor a product to that buyer's specific needs. The pinnacle of success in this endeavor occurs when you provide a particular kind of buyer (the target market) with a development and housing type that contains not only desired attributes but also unexpected ones. The idea is that once presented, these new concepts become attributes the buyer cannot do without.

Changing Target Markets

Twenty years ago no one could have predicted the variety of target market groups that exist among potential buyers today. The rise in single-parent households, young urban professionals, and couples waiting longer to start families has created a number of these new markets. Another set of target groups centers on demographic trends such as people living longer after retirement or retiring early. Longer work hours, more job stress, and telecommuting have also created mini-target market groups among preretirement groups. Increased government regul tions, decreasing availability of land, and the sometimes po condition of that land add to the need for a good market stud

To identify a good market research firm, ask lenders other developers who they like. Cities and towns have pre good data associated with their master (comprehensive) plan Most state universities have research centers that collect ec nomic and demographic data.

Both lenders and investors use the market study as a to to justify a large capital allocation to a specific project. Initi project feasibility can only be proven by thoroughly docu menting the market itself, the land's development capacity, th cost of compliance, and projected sales and cash flows.

Types of Market Studies

Market studies come in many forms and sizes, from large an comprehensive to small and select. Small projects sometim require answers to only a few questions if you are experience and working in a familiar area. Conversely, the questions a numerous and complicated when large projects are develop in phases over a long period of time and offered to several ta get markets.

Some broad-based goals of market studies are:

1. to understand housing supply, demand, and absorptio rate in a given geographical area (Absorption rate is th rate at which residential units are sold or leased withi a given period of time. The term can apply to the hou ing supply and demand of a given geographical area to a particular project's rate of sales. It can also refer rental property.)
2. to determine both a chosen target market and the typ of development and home to provide (The target mark is a distinct segment of all potential buyers who sha the same demographic characteristics such as age, rac gender, marital status, number of children, income, ed cation, and profession.)

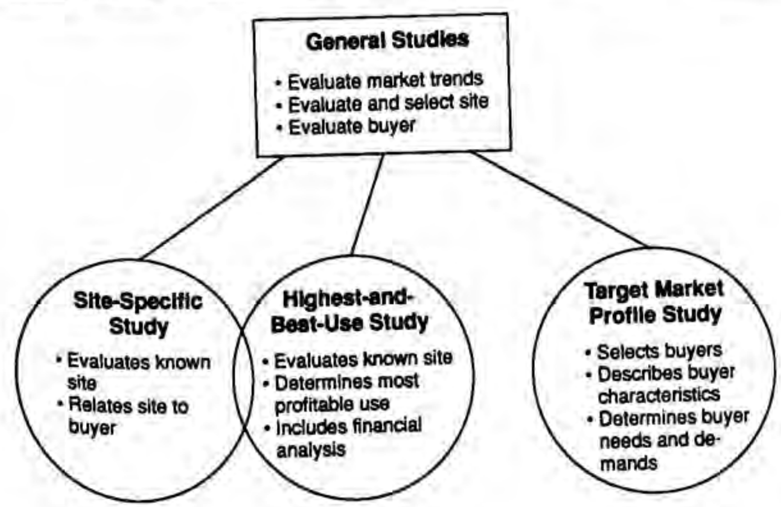
3. to acquire specialized knowledge of the market, for example, regional preferences and other lifestyle characteristics of targeted buyers
4. to provide information that helps sell the project to lenders, investors, and other builders
5. to demonstrate to planning authorities that a housing demand exists in the area

Most market studies can be grouped into four basic types of studies: general, site-specific, highest-and-best-use, and target market profile studies. (See Figure 1.1.)

General Studies

You can conduct general studies in a large geographical area such as a state, county, or city to determine a location for a known type of development. These studies are usually performed by larger development companies that have both experience and success in building specific types of development in other locations. The study could include information about demographic characteristics of buyers, economic conditions of the area, and future conditions based on such elements as new

FIGURE 1.1. Four Types of Market Studies



major employers. General studies can also include questions about the nature of the marketplace, the competition, the possibility of new target markets, and economic influences on a buyer's ability to purchase a home.

Site-Specific Studies

If you already own a parcel of land or hold a purchase option, you can conduct a site-specific study. This evaluates site characteristics in terms of location, capacity for number of units and overall density per acre. Use it to discover and analyze prominent site features such as mountains, hills, or waterfront as well as regulatory considerations. Once collected and analyzed, this information reveals what marketing information you need to determine the best development for the site. It also helps reveal which type of buyer to target.

Highest-and-Best-Use Studies

If you already own land or a developed parcel in need of revamping, you need a highest-and-best-use study. The goal is to determine the most profitable use of the site permissible by site constraints and regulations. You conduct this type of study under the same circumstances as the site-specific study, with the same general objectives. It also includes a financial feasibility analysis.

Target Market Profile Studies

Target market profile studies determine the type and number of different socioeconomic groups in a given area. It further defines the outstanding demographic and lifestyle characteristics of specific groups of buyers with similar socioeconomic backgrounds.

This study also works for a single target market group. For example, target market profiling can uncover the driving forces behind such current trends as greater requirements for privacy and security, increased need for office space at home, or desires for high-tech maintenance features within a traditional setting. Your knowledge of these trends can inform design decisions.

Through this study, you may also uncover a potential target "market window" (a group whose needs are not being met with existing product offerings). The study helps define the specific market niche (narrowly defined segment of the homebuying public). Your goal is to discover the particular demands and desires of this group and provide the most marketable product possible, thereby increasing project success.

What Kind of Study Do You Need?

No matter what type of study you conduct, begin by clearly defining your goals. If you employ a marketing consultant, that person should work with you to set the goals and explain alternative approaches for achieving them. This includes the most appropriate type of study to use as well as the type of information needed to realize your goals, how this information will be gathered, the relative cost of each approach, and what you can expect in the final product you are purchasing.

Each of the four types of market studies must offer answers to a broad range of questions. These studies are usually conducted at the beginning of a project—before site selection and purchase. However, if you already own your site and wish to find the best use for it, a comprehensive market study (a combination of the full range of issues covered by the other three types of market studies) might also be in order. As an alternative, if you are familiar with an area and are contemplating a smaller development, you might forgo a comprehensive effort and limit a market study simply to the investigation of one or more specific questions.

The comprehensive study can address four basic issues:

1. What will be the size of the total market in your local area at a future time and what proportion can your project capture?
2. What are the demographic and psychographic (lifestyle) characteristics of your chosen target market within a certain household income range?
3. What lifestyle preferences such as types of developments, location, amenities, and services does your target

group demand? (This question should account for the difference between demand and desire for a product. If demands are not met, the buyer will reject the product. If the project goes beyond meeting demands to also meet some of the desires, this enhances the product in the buyer's eyes. This question also addresses any specialized information pertinent to the target market.)

4. Given the nature of the target market, the local area, the competition, and the economic factors affecting the target market's buying power, what is your project's anticipated absorption rate within a given period? What are your cash flow requirements and anticipated rate of return?

A comprehensive study might also include a variety of other information relevant to the project, such as the desirability of the site's location or an in-depth study of the competition's offerings to the target market.

An example of the type of broad questions a comprehensive study might answer is, How many households in a certain area are within a particular income range or what percentage of households in a particular income range are married with children? A more specific question might be, How many households in the $200,000 income range are professional, double-income families with no children? Finally, an example of a narrowly focused question is: How many in the range prefer playing golf as their predominant leisure activity?

You may also sometimes need to reexamine the market to adapt to sudden changes. For example, suppose a site was purchased to develop single-family homes for first-time buyers. When the site was purchased, interest rates were 8 percent. By the time the project is ready to be offered to the public, interest rates have risen 3 points and the original target market can no longer afford the product designed for the purchased site. In this case, you may need a quick study to find a new target market for the original product and assess what changes, if any, may be required.

Housing Supply and Demand

One of the first decisions you must make for your new venture is the number of housing units to supply to the market in a given period. As a first step, define the macromarket area from which the project will draw potential buyers. The macromarket area is a chosen geographical region from which the data that support the demand for housing will be gathered. That area could be everything within the city limits or a portion of a highly populated city. For smaller cities and towns, the macromarket area might be the entire county.

Once you've determined the macromarket area, study the housing supply and demand there within a specific time frame. From this, you can forecast demand for a future period. Housing supply consists of all the existing housing stock (homes) on the market, including stock currently under construction. When you look at a previous year, the houses sold represents the demand for that year.

Consequently, if supply and demand are quantified yearly, you can determine the absorption rate (supply divided by demand). Study the absorption rate over a period such as five years, and you begin to form a picture of the health of the housing market that includes both sales and vacancy rates. Given the cost of construction financing, evaluating the absorption rate helps you project both the number of houses you might reasonably offer and your anticipated sales rate.

The key factor when determining housing supply and demand is the number of houses in a given price range that can be sold the year the project comes online (in other words, when the units are ready for sale). Once you know that number, you can determine how many of those your project can capture. Begin your study by gathering the following information: housing mix, population projections, household size and configuration, destroyed or razed housing, age of householder and income, and current unsold inventory.

Housing Mix

From data found in the local building permit department, you can find the percentage of all housing provided during the year within the categories of single-family, multifamily, and mobile homes. These percentages are known as the housing mix. If these data are gathered for at least five years, you can predict the percentage of each category you might offer at sales time. Your prediction will be based on whether the percentages of the past will continue. Whether they continue, increase, or decrease depends on the amount of unsold units in each category, the general health of the economy, and any potentially significant change in the local economy, such as zoning changes or the gain or loss of a major employer.

Projecting Demand

Future demand is based on population growth, the increase or decrease in household size due to social change (household formation), the number of destroyed or razed housing units, and the over or under supply of existing housing. To project future demand, you must first forecast the population increase into the macromarket area. You can obtain this data from several public sources, including chambers of commerce, the local government's economic development office, or various state research bureaus.

Once you have determined the increase in population influx into the area, examine the trend in changing household size due to social change. Since the average household size changes from year to year, you must predict its size based on the trend for that future year. For example, over the last 20 years, the trend shows the average household size steadily decreasing.

After you know the population increase for the macromarket area, determine the average household size. First examine the household size for five or more previous years. Note the amount of decrease for each year, then predict the average household size for the year your project will begin sales. Many public sources such as census data, state and local agencies, and published marketing reports provide current and predicted household size. Once you have projected the average household size for the chosen year, divide the projected population increase by the projected average household size. This will give you the number of housing units needed to supply an increase

in population in the macromarket area. Figure 1.2 illustrates this technique for projecting housing demand.

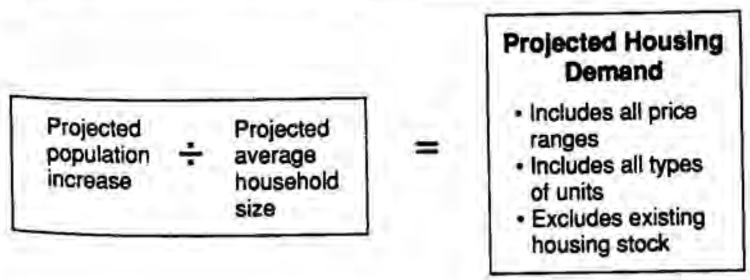
Adjusting the Projection

At this point, you are predicting demand based only on increases in population in the macromarket area. Keep in mind this number is associated only with growth. You have not yet accounted for existing households that want to purchase first-time or move-up homes or that are experiencing a lifestyle change such as divorce or retirement. They can also generate additional demand for new housing. However, predicting this type of demand requires more speculation because it cannot be easily quantified and is based on shifting trends.

If you want to include these potential home buyers in your estimate of total demand, make an educated guess by studying the number of housing starts and reviewing building permit activity over the last five years. Local real estate associations sometimes have breakdowns in the number of people purchasing starter homes, moving up in each price range from existing homes in the area, as well as how many purchases were made by people moving into the area. This number can be added to the number of total of housing units predicted from demand derived only from incoming populations.

Lifestyle and Other Trends. To adjust the number of units predicted from incoming population demand, account for changes in household size due to lifestyle changes. Figure 1-3

FIGURE 1.2. Projecting Housing Demand from Population Increase



shows one method for calculating this. Subtract the projected average household size from the existing household size, then multiply by the total number of existing dwelling units. Dividing the new total by the projected average household size will give you the projected housing demand from lifestyle changes.

Razed Housing. You can further adjust the projected housing demand by adding the projected number of razed housing units for the chosen year. Reviewing the average number of razed houses over the five-year period can help you project this number. Of course, if a catastrophic event such as a hurricane or earthquake has occurred, the average number over time will be irrelevant.

From this new total, subtract existing unsold housing stock to get the adjusted housing demand. At this point the total number of projected units still includes all housing types. Since you are interested only in the type of housing you plan to offer, multiply the total number of projected housing units by the percentage of the projected housing mix that applies to your project. This last total is the final adjusted housing demand for your particular housing type. Figure 1.4 shows the full

FIGURE 1.3. Projecting Housing Demand from Lifestyle Changes

(Existing household size − Projected average household size) × Total existing dwelling units ÷ Projected average household size =

Projected Housing Demand From Lifestyle Changes
- Marriage
- Divorce
- Empty nest
- Retirement
- Other

FIGURE 1.4. Adjusted Housing Demand

Demand from population increase + Demand from lifestyle changes + Demand from razed homes − Existing unsold housing stock =

Adjusted housing demand × Projected percentage of housing mix in desired category = Final adjusted housing demand

process of adjusting the projection for housing demand in a given year.

Income Profile. At this point, you have predicted the total number of units in a unique category (single-family, multi-family) for all price ranges in a future year. You can further fine-tune this number by selecting out the units to offer in a particular price range. To do this, study the percentage of area households in each income bracket. Both national and local trends can affect this mix.

If conditions in the local area are relatively stable, income trends for households coming into the area will probably remain similar to those of the past. But if a major change has occurred, the number of those households in each income category might vary. For instance, a major employer moving into an area can draw a significant number of people in a particular income bracket, thereby shifting the previous distribution of the area's income profile. The income profile can give you an idea of what to expect from incoming households if conditions remain stable, while presenting a picture of the current makeup locally.

To create an income profile for a chosen macromarket area, use the population, household size, and income data from census information or other sources such as the business research bureau associated with your state's major university. Produce a graph depicting the number of households in each income group. Plot number of households as a percentage of the population on one axis and annual incomes on the other (see Figure 1.5).

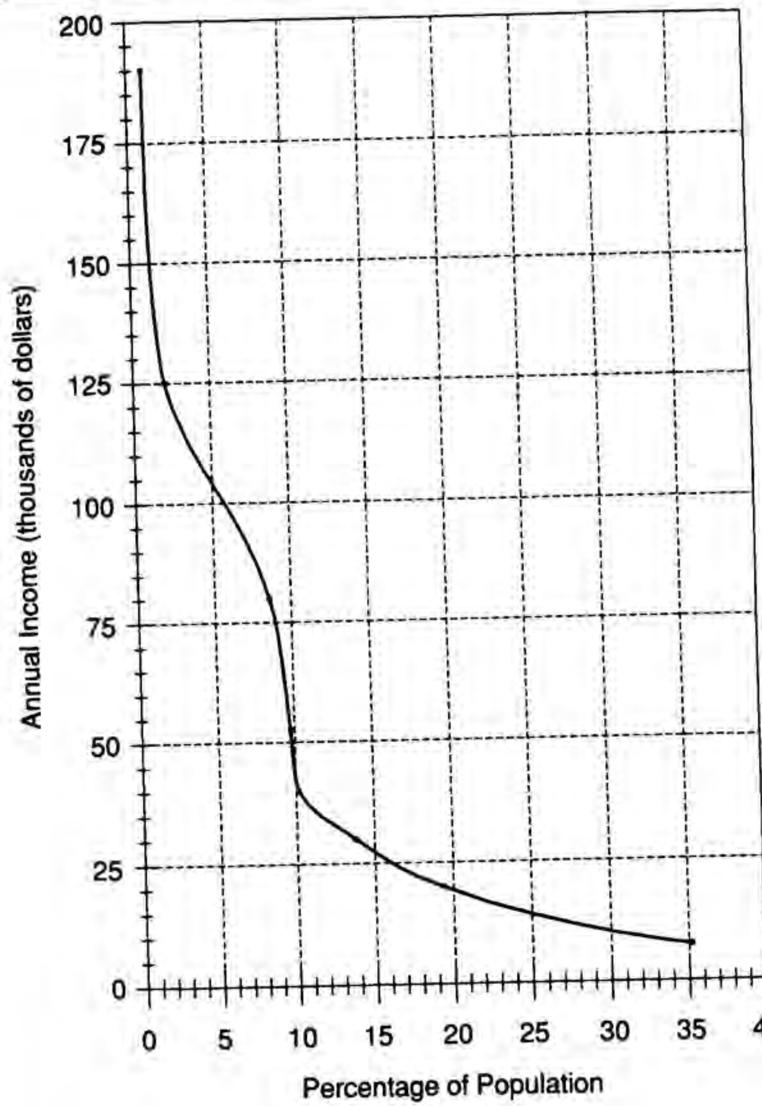
The income profile for the area will show how many households are found within certain income ranges. You can then correlate the household incomes with the price range of houses that those households can afford. This gives you an idea of what percentage of units might be needed in each price range. Each income range represents the broad boundary of a potential target market that you can later divide into groups with similar socioeconomic characteristics.

You can use the income profile in several ways. If you are interested in building housing in a certain price range, the income profile will show how many households in the area will find your homes affordable. It will also show which income ranges have the largest number of households. If you believe incoming households will continue to reflect the existing local income percentages, you can use those percentages to determine the number of incoming households within a certain income range.

In deciding the price range for your units, consider price ranges with which your company has experience or that presently sell well in the area or will sell well in the future. After choosing an income range to target, decrease the number of units in the projected housing demand by the percentage of households in the target income range. Remember this assumes that the number of households that will move into an area will have approximately the same mix of income ranges as in the past. If this is not the case, adjust the total number of units by the expected number of households in the desired income range.

Demographic Data. At this stage, you know the number of households in a given income range desiring a certain category of housing in a future year. However, you have not yet consid-

FIGURE 1.5. Income Profile



ered the demographic characteristics of these households. Each household income range contains many groups with different demographic characteristics. For example, consider a single- or double-income household with a yearly income between $120,000 and $150,000. The household could have two married adults with or without children or its members could b retired. The income earners could be between the ages of 3 and 45 or 65 and 75.

Within a given price range you will find a variety of housing needs, so you should narrow the chosen household income range to target a particular demographic group. Each income range contains a certain number of households. By looking at census data or population studies of the area, you can determine the percentage of particular demographic groups in each income range. The total number of households could include singles and married couples both with and without children. For example, if the income range of $75,000 to $85,000 contains 2,000 households, you can determine what percentage is married with two incomes and no children.

For your chosen category of household income range, adjust the total number by the percentage of households in the particular group you are targeting. If you are investigating a small local area and census data are unavailable, use national data if you believe households in the macromarket area reflect national averages. As with incomes, they will either be the same as the national mix or different because of regional peculiarities such as a high number of retirees. You can then adjust the number of projected units marketed toward a particular income range to target only the chosen broad demographic or target market groups.

Sources of Demographic Data

When investigating the population characteristics for your local area, gather demographic information by purchasing data from private sources or obtaining it from public sources at little or no cost. Raw facts and figures are relatively easy to obtain from both sources. However, interpretive data resulting from the analysis and synthesis of various kinds of information are more elusive and usually must be purchased. Appendix A lists some public and private sources of demographic data.

Census Data

The most common source of almost all demographic information is the U.S. Bureau of the Census, which is part of the U.S. Department of Commerce. The census is taken every 10 years and forms the basis for the population estimates most public and private sources use. Various census publications can provide statistics on the social, demographic, and economic characteristics of population. Household size, individual and household incomes, housing characteristics, types of heads of households, gender and race characteristics, and marital status are among the kinds of information in the census. Most reports will provide statistics on the national and regional level; some also provide information on the state, county, or metropolitan level.

Sources of Census Data. Census statistics are gathered from surveys taken by census tract; the last data year for the 2000 census is 1999. The most attractive aspect of the census is that the general public has easy access to it. The local public library usually has a variety of census reports available. You can also try the nearest state university or college library, which frequently have separate government documents sections and librarians and staff trained in their use. The easiest way for you to access census data is the Internet.

There are three cautionary notes about using census data. The first concerns income accuracy. You must take the household incomes reported in the census data year for 1999 and adjust them for the year your project will be offered to buyers. This means you must index 1999 incomes up to a projected amount for the future year.

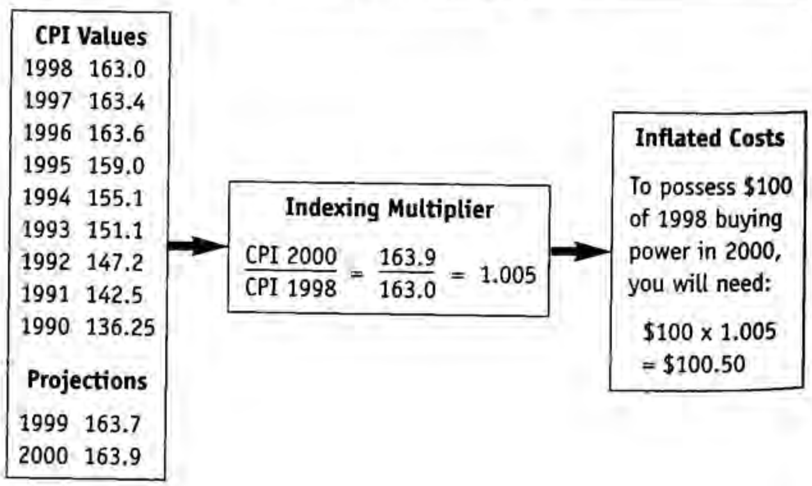
Indexing Incomes. Although there are numerous methods for doing this, a simple one is the Consumer Price Index (CPI). The Consumer Price Index is the average change over time in the cost of goods and services reported by the U.S. Bureau of Labor Statistics. By reviewing the change in the Consumer Price Index over a period of 5 or 10 years, you can make a prediction about the CPI in a future year based on the trend.

The next step is to divide the CPI for the chosen year by the CPI for the data year to obtain a multiplier to use in indexing money up for the future year. Use the CPI multiplier to index the incomes upward for the year you will begin selling homes. Figure 1.6 shows one way to apply the Consumer Price Index to obtain projected income for a future year.

Outdated Census Data. The second caution concerns using outdated demographic data. The entire range of population could be 5 to 10 years older than that surveyed, depending on how long ago the data were gathered. If census data is too outdated, get this information from other sources that have taken this into consideration. You can obtain updated data from marketing data vendors or recently published market reports for the local area commissioned by the state, county, or city.

Validity of the Census Data. The third caution concerns the validity of the population statistics themselves. Many groups

FIGURE 1.6. Using the Consumer Price Index to Determine Future Income



have complained about the accuracy of the census due to the immense social changes in the United States. For the 1990 reports, census takers said data was dramatically more difficult to gather in 1989 than in the past. Many people would not open their doors, others ignored the census, and many moved too many times to be tracked down. Increased security fears and more frequent address changes are continuing trends. Even so, the census remains the most comprehensive demographic data available to most.

Other Sources of Demographic Data

Various agencies and research institutes throughout the country provide another public source of information. Much of this is free to the public and found in various types of libraries. For example, many state universities have a business and economics research institute affiliated with the college or business school. These research bureaus produce and publish data for the express purpose of guiding and evaluating all types of businesses in the state. Some reports are for sale for a minimal fee but the cost is negligible compared to that of purchasing demographic information from private companies.

Using state-affiliated research centers has several advantages. Since these organizations are in the business of producing and evaluating data, they all employ methods for updating population projections to produce the most accurate and current data available. They might use driver's licenses, building permits, voter registration, or some other method to count population on a year-to-year basis in the state or local areas. Therefore, data from these sources is more current than that from the census. These research centers also specialize in data unique to the state or region, helpful when you consider a project located within that area.

Some counties or cities provide these data as part of their comprehensive plans. Local population characteristics are used in making growth planning decisions. Along with general demographic data, these comprehensive plans may include housing and neighborhood studies to project future housing needs for the area. Some reports that describe local conditions contain both general demographic data and analysis and an interpretation of that data.

Capture Ratio

At this point in your study, you have determined that a builder or developer can offer a certain number of units within a given price range and category marketed to a specific target market in a future year. This prediction is based on population and household projections and demographic data for the local area. The final question remains, How many of these units will your project attempt to capture?

The capture ratio describes your portion of the market or market share. In forecasting this ratio, you need to consider capacity. Capacity describes your company's cash position, number and type of personnel, ability to take risks, ability to take a loss, and your own confidence in the marketability of the new development. You should evaluate your own capacity as well as your competition's. Cash position and personnel requirements are relatively easy to determine because they can be quantified. Your company's ability to take risks and the marketability of an idea are more qualitative variables, both of which require a thorough understanding of the target market.

Understanding the Target Market

The homebuying public is not a homogeneous group whose choices are driven only by income, affordability, and family composition (demographics). Home buyers break down into numerous target markets according to both demographic and psychographic (lifestyle) characteristics. Your design decisions must tailor the new community to the target market. More than ever, marketing information must go beyond the basic demographic characteristics of age, race, gender, marital status, and children to include more specific and sometimes more subtle buyer habits and concerns. These are frequently referred to as psychographic characteristics, a term first used in the advertising industry.

Psychographic Data

Essentially, psychographic characteristics are the lifestyle choices of a particular socioeconomic group with similar demographic profiles. The needs and desires that emerge from these characteristics make up the psychographic profile. Generally, the more thoroughly these are understood, the more marketable the resulting product will be.

The trend toward having market studies address these issues comes from American manufacturers and retailers' success in tailoring their products by understanding the increasing number of groups that differ widely in their demographic and psychographic profiles. American society is undergoing dramatic changes as the population ages; lengthening life spans create larger numbers of active retirees, and divorce rates increase. With this change comes a corresponding rise in single-parent households, a prevalence of two-income families, and the counter movement of one parent decreasing or eliminating outside work to stay at home with the children. These changes, in turn, have created a greater polarization of groups with dissimilar psychographic profiles and, therefore, dissimilar demands as home buyers.

Here are some currently recognized target groups whose demographic and psychographic characteristics have been studied:

- double-income professionals, no children
- double-income professionals, school-aged children
- single-income households, 1-3 children
- single-parent households, 1-3 children
- households with one or both incomes derived from home-based business
- young professional singles
- mature professional singles
- empty nesters
- active retirees
- semi-active retirees
- assisted living retirees

Depending upon location, the list could include many more or entirely different categories. For instance, some parts of the country have a disproportionate number of retirees over the age of 65. We no longer consider this group to be a homogeneous target market categorized only by income. Retirees are as diverse as the rest of the population in income, marital status, recreational preferences, health, education—and desired services and amenities.

In areas where retirees represent a disproportionate percentage of the population, it is safe to assume this group will contain larger numbers within each particular target market subset than in areas with fewer retirees. Therefore, the various groups making up the 65 and over population will have a wider range of demands and desires. Consequently, in areas such as these, you may want to offer a greater variety in the types of developments and homes to satisfy the needs of the various subgroups of this target market.

By studying the psychographic characteristics of target groups, you can often translate lifestyle preferences into quite specific design ideas. For example, if one group frequently entertains business acquaintances at home, while another group primarily entertains family and friends, the two groups' requirements for formal and informal entertaining space will be quite different. The group that entertains business acquaintances might demand more space and quality in formal living and dining rooms with preferences for more open plans. The group that entertains family and friends might opt for more space in the informal living and dining areas with the formal dining room de-emphasized or eliminated altogether. Figure 1.7 shows some specific groups, characteristics, and the resulting design equivalencies.

Effective marketing focuses as narrowly as possible on those characteristics and details of developments and homes preferred by the target market. The idea is to capture as many buyers out of the chosen group as possible, not worrying about whether the product will appeal to all. If it appeals to others, so much the better. However, making homes and developments neutral in appeal in hopes of expanding the favorable response and selling more homes usually proves to be a losing strategy.

FIGURE 1.7. Target Market Preferences

Target Market ■ Double income professionals ■ No children	**Target Market** ■ Boomer household over age 50	**Target Market** ■ Young families
Demographic Characteristics ■ Married ■ 25–34 years old ■ No children	**Demographic Characteristics** ■ Married ■ 1–3 children, away at college or work	**Demographic Characteristics** ■ Married ■ 1–3 school-aged children
Psychographic Characteristics ■ Focus on building career ■ Physically active, seeking ways to stay fit, have fun ■ Enjoy entertaining friends ■ Travel often for work and pleasure	**Psychographic Characteristics** ■ Entertain formally for work related functions ■ Focus on safety issues ■ Desire to work at home more ■ Looking toward retirement	**Psychographic Characteristics** ■ Spend most of free time in family-oriented activities ■ Focus on well-being of children ■ Work is time consuming due to career-building stage
Design Equivalencies ■ Require home office space ■ Seek location with or near recreational facilities ■ Emphasis on informal entertaining spaces ■ Low maintenance for house and lot	**Design Equivalencies** ■ Require more open floor plans ■ Desire alarm systems, gated entries ■ Desire dedicated home office space ■ Looking for smaller square footage with more quality details and flexible space	**Design Equivalencies** ■ Require nearby parks, hike and bike trails, community swimming pools ■ Require safely designed streets with separation of pedestrian and vehicular traffic ■ Require location near work or with short commute, flexible spaces for home office

Sources of Psychographic Information

You can find psychographic data in public information sources such as journals, books, and other publications. But frequently you must purchase from marketing data services the most sophisticated information on regional and specific location differences. The more elusive specialized information—for example, a local target group's specific lifestyle characteristics—is almost always purchased. The methods by which this kind of information is gathered can be quite costly because public sources such as census data or other available market information sources cannot easily answer them. (See Appendix A for a list of sources for psychographic information.)

You may be able to obtain marketing information that determines the target market's preferences for location, housing types, density tolerances, image, and master plan style from psychographic studies that are public information. Local governments often commission professional marketing studies to further business development or to evaluate the level of support for new museums, civic buildings, or airports. These studies are invaluable sources of both demographic and psychographic information because they are specific to the local area.

However, in using these sources, note the purposes for which the lifestyle profiles were generated to see if they closely match the purpose of your residential market study. Other sources of psychographic information include professional studies found in public and university libraries, professional marketing and residential homebuilding publications. You can also conduct your own focus group.

Specialized Knowledge

At times you might need to find answers to specific questions about a target market or to know about special characteristics of buyers unique to the area or group. The kind of information you need is vital to project success but unavailable from the typical sources. This type of information goes beyond the normal scope of most public sources, to include any information that must be gathered by survey, requires specialized knowledge to interpret, or pertains only to a specific geographical region. Figure 1.8, Types of Specialized Information, shows some examples of the many questions you might need to investigate to understand what kind of product to provide and how to market it effectively.

When to Use Specialized Information

When considering the use of specialized information, determine whether the success of the project warrants the extra cost. If your project relies heavily on selling a new idea to the target market, the project budget should have provisions for testing that idea. If you are developing in an unfamiliar geographical region, for example, you might need to know any special preferences in materials and style particular to the region.

Sources of Specialized Information

Some of the sources that may have useful specialized demographic information include local real estate boards, home builders associations, chambers of commerce, and utility, telephone, and title companies. Local universities and colleges,

FIGURE 1.8. Types of Specialized Information

Types of Information	Specific Question
Financial Characteristics	■ Amount of equity in present home? ■ Average amount of debt? ■ Amount of disposable income?
Psychographic Characteristics	■ Types of leisure activities? ■ Amount of time spent playing golf? ■ Most utilized room in the house? ■ Preferred service amenities? ■ Conduct business at home? ■ Separate playroom for children?
Regional Characteristics	■ Preferred architectural style and materials? ■ Preferred type of outdoor activities? ■ How does weather impact home design?

along with associated research institutes, may have generated data or studies pertaining to the special questions for which you need answers. In addition, you may gather these data from marketing subscription services, surveys, and focus groups.

Surveys. Surveys may be one of the most effective ways to gather both specialized demographic and psychographic information. For example, surveys of buyers and customers are most likely to provide design preferences or financial characteristics of target groups. Survey questions are intended to uncover information that can lead to design and marketing ideas the group would potentially find desirable.

Focus Groups. If you are contemplating untested ideas for a new development and have sufficient resources in the project budget, consider holding a focus group. In a focus group a dozen or more people that represent the target market are brought together to supply responses to ideas and questions about the proposed project. You should select the members from the target market profile. The group is intentionally kept small to facilitate discussion. At the beginning of the discussion, you may decide to show examples of the new community's features and homes. After ideas are presented, the group is asked to respond.

Testing ideas using focus groups is expensive and usually coordinated by marketing professionals. Using the results from the focus group discussion, a skilled group leader can develop a profile of the target buyer's needs, preferences, and motivations. However, the results are sometimes invalid because of group biases. Conducting several focus groups can help validate the responses as a whole, but this becomes even more expensive, although the size of the project and the unique nature of the development sometimes warrant this expense. Finally, note that some types of information not only require surveys or focus groups to gather but also may require specialists to interpret.

Project Viability

A well-crafted market study is sometimes necessary to convince financial supporters of a project's chances for success. Most lenders today require a market study as part of their list of documentation requirements. A good study can always help persuade the lender that you have considered all possible variables. The study can prove helpful if the lender is very familiar with the area and the success of other projects, and your market study accurately reflects the characteristics of the targeted buyer and the location. If your project depends on investors for part or all of its financing, a market study presents the clearest picture to the collection of investors who may or may not understand the market or the development process.

When to Study the Market

You can conduct market studies at several different stages of the project. Although they are most commonly conducted in the beginning stages, you should study the market throughout the project, depending on various situations. A company can even study the market independent of a project to answer more far-reaching questions about trends, economic issues, locations, and the company's capacity for new types of business ventures. Two common points at which to conduct a market study are before the land purchase or, if you already own the site, before you decide on the appropriate type of development. You may also want to study the market during project build-out and sales and after the project is completed.

Before Land Purchase

Before purchasing land, use the market study's primary purpose to establish the feasibility of an idea. The goal: to find appropriate markets to target and new locations in which to develop, understand local economic factors and national economic trends that influence homebuying, match potential locations with target market preferences, and survey the competition. The study can lead to your purchase of the best parcel of land for a given development type or merely answer questions about the feasibility of developing particular parcels of land for new target markets.

Determining Location. A market study can answer questions that help you find new locations favorable for development and reduce your risk when purchasing a parcel of land for a known type of development. If you have already chosen the target market, this study can help you understand which lifestyle preferences will help determine the location and site features that best suit the group. This will narrow your search and provide an invaluable tool for evaluating land purchase.

The following are examples of the many questions a market study can answer to assist you in selecting a site:

- How important is resale? Will this group become move-up buyers in a few years or will they tend to hold onto the home for an extended period of time?
- What commuting distances does this group tolerate?
- Where is undeveloped land that is or can be zoned appropriately for your home type and density?
- What desirable, close-by services, institutions, and amenities would make this site more marketable to this group?
- What services and amenities should you provide in your new community?
- Where are the other developments that target this same group? What are their most desirable characteristics? What are their most detrimental?
- What safety and security requirements does this group have? What parts of the local area meet their minimum requirements?

New Ventures. If your company has the capacity to operate in larger national or statewide geographical regions, a market study can uncover potential locations for new ventures. You can have the study done whether the target group is known or

unknown. If you know the target group and its characteristics, the study can provide a list of the most important variables to consider when examining new locations. A study of this sort might evaluate some of these considerations:

- health of the local economy and the factors on which it depends
- types and number of major employers and the possibility of job expansion or decline
- relationship between quality of life issues and employment opportunities
- availability of affordable land that can be zoned appropriately
- impact of taxes, regulations, and political climate on development

After Land Purchase

If you already own the site and are looking for its most appropriate use, you may commission a market study to determine the best type of home buyer to target for that particular site. The study can evaluate the compatibility of a chosen target group with the kinds of lot sizes and configurations, housing density, housing types, and community image best suited for your site. As part of the study you can also have design concepts tested on focus groups before making final design decisions.

During Project Build-Out and Sales

You may also study the market during project build-out and sales to answer questions about why sales might be lagging, to determine the best methods to advertise the project, or to determine what changes, if any, should be made in the next phases of the project. If you know the target market and have answered many of the bulleted questions above, the market study can examine sales and marketing strategy for this group.

This market study can include information about the necessity and role of a model sales center, the type of furnishings needed, the most appropriate type of sales staff, and the way you present the development to potential buyers. For instance, should your sales staff and advertising focus predominately on selling security, prestige, sound investment, or a particular lifestyle? Should the sales staff emphasize the development over the home or the opposite? What type of advertising media and cost might appeal to most of the group? Then decide on the amount and scheduling of advertising required for selling the project and compare it to predicted sales rates for cost-effectiveness.

After Project Completion

After project completion, conduct buyer surveys to evaluate the effectiveness of design and marketing decisions. Analyze sales rates according to predicted project absorption rates as well as the marketability of units to their expected target market. This information can help you to refine decisions in future projects marketed towards the same target market.

When to Purchase Market Information

If you are primarily a small-volume builder or developer, you still must gather many kinds of information and prepare market studies for a contemplated project or find new business opportunities in new types of developments and locations. This is especially true when the questions you ask are specific and verifiable by data or numbers. An example: projecting the demand for housing units in a certain price range and a given local area in a future year. This sort of information is available from a variety of public sources and costs only the time you or your employees spend gathering it. When the questions become more complicated and require you to analyze and interpret many different kinds of information, you need more expertise.

Do Your Homework First

Before you commission a study or produce one in-house, investigate conditions yourself. Talk to key brokers and sales professionals in the area for their opinions about buyer characteristics and locational preferences. Visit all other developments in the area. If you can, talk to other area developers to obtain their opinions about market and land characteristics. Familiarize yourself with the inventory of resales that fit your target market's price range. Also, talk to potential lenders to find out their views on the market. Although these types of inquiries are purely subjective, they can go a long way toward helping you firm up your own ideas of the type of information the market study should provide.

In-House Market Studies

You should consider gathering marketing information in-house under the following circumstances:

1. Questions are specific and rely upon data or numbers easily obtained from public sources.
2. Project size is small, and the product is aimed at a familiar target market.
3. You are confident the market study's goals (questions) are clear and sufficient for the project's needs.
4. Financial supporters and lenders do not require a formal study done by an outside professional before approving your loan or investment.

One of the most important things to consider is whether you can obtain the information needed to answer the study's questions from public sources or inexpensively from private sources. Evaluate the quality of the available information in terms of who produced it, for what purpose, and whether it is up to date. Finally, have sufficient experience to determine whether the study's goals are adequate for achieving project success.

Professional Market Studies

Project size can influence the decision to use a professional marketing consultant. Marketing studies are frequently expensive and higher-volume developers usually have better resources to fund them. However, consider the cost of the studies well worth the expense because they help prevent the mistakes in design decisions and strategic planning that cause projects to fail. For large projects, lenders and investors usually require a formal study as part of the project's preliminary feasibility documentation. Figure 1.9, Reasons for Purchasing Professional Market Studies, contains a list of other reasons to purchase a professional market study.

Why are professional market studies so often associated with larger developments? Larger developments face the same range of problems smaller developments do but their increased size can compound the problems. They often have greater infrastructure requirements and greater offsite impacts on local infrastructure such as heavier traffic and utility loads. Potential environmental and regulatory impacts pose much greater challenges and usually cost more in time and money.

Larger projects have the potential to contain many different products aimed toward a variety of target groups. Consequently, they frequently take the form of a collection of neighborhoods. This raises the question of how to phase the project to build for higher marketability, rate of sales, and appropriate cash flow.

While more crucial for larger projects, professional market studies are imperative for all projects in situations where competition is intense, the market is near capacity, or the developer's financial capacity demands a critical project-absorption rate to assure adequate cash flow and profitability. Consider a professional market study when you propose new housing units or development concepts or when you require highly specialized information.

Evaluating Professional Services. Once you decide you need a professional study or consultant, have a system for evaluating market studies to ensure you are paying for the most helpful information. First hire a reputable company or consultant to do the study. Require that the person who has major responsibility for the study provide credentials and a list of projects on which he or she has worked. Here, as in any service, ask that the references include former clients, and take the time to check them. Also ask to review copies of other studies that the company or consultant has done to check scope, format, and quality. Use your local Building Institute Authority as a resource for finding a good consultant.

FIGURE 1.9. Reasons for Purchasing Professional Market Studies

- Project size
- Potential project phasing
- Lender and investor requirements
- Study's affordability
- Restrictive regulatory climate
- New concepts and target markets
- Critical sales rate required

Before commissioning the study, you should find out what sources of data the market consultant intends to use; this will affect both quality and cost. Professional studies, which utilize only public information sources, should cost less than those using more definitive techniques such as surveys and reputable demographic information services. If the consultant plans to use only public information sources, you should once again determine if you have the in-house capability to gather and interpret this information yourself.

Clearly define the scope of your study in the initial consultation with the marketing firm. A professional marketing consultant can usually indicate whether the scope of the study can adequately provide the information you need for your project to succeed. If the scope of the study is inadequate or the cost of a full study too high, the consultant should provide some viable alternatives.

After a thorough understanding has been reached about scope and cost, carefully evaluate whether your company or project has enough financial capability to warrant the study. If it does not, you may want to consider conducting the study in-house rather than paying for a professional study limited in scope. However, large projects or those with untested ideas almost always warrant a study. In this case, if your project budget cannot support a market study, you might be undercapitalized.

Before signing the contract, you and the consultant can set firm guidelines for the study's scope and delivery. Then, throughout the research and analysis phase, stay in frequent contact with the consultant to ensure that the study progresses according to the original agreement.

Evaluating Market Studies. Professional market studies are by no means foolproof. The cost of the market study does not ensure that accurate decisions result from the collected data. This is why, after making the decision to purchase information, your primary quality control is carefully hiring reputable consultants. Whether commissioning a study or taking data from a previously generated study, ask the following questions:

- Does the marketing firm or consultant have a solid reputation?
- Did the marketing firm recently conduct the study or collect the information that forms the basis of the study? (The market is volatile, giving market studies a short shelf life.)
- Does the market study address the specifics of your region? (If it does not, it may not be valid for your project.).

Finally, market studies are not foolproof. They are no substitute for your ability to make informed decisions about the market. This is another reason why you should do as much "grass roots" investigating as possible on your own. Talk with professionals in the area and learn about trends through the media so you as the developer may keep current with the latest socioeconomic trends that may affect changing demands in homebuying.

Continue to Market

Once you have completed the market study and identified the target group, you must plan and implement a strategy for marketing and selling the product to that target group based on your market study. This ongoing process must be carried out in some form until the sales are completed. Once sales are underway, monitor traffic, sales rates, buyer responses, and the types of units that are the most popular or unpopular.

The sales staff should be vigilant in monitoring the reactions of potential buyers. One approach for getting feedback is to use a short questionnaire on buyer responses and preferences. If a questionnaire seems too intrusive for potential buyers, simply keep a sign-in sheet. After the potential buyers leave, you can record your own impressions on a separate record. Your notes can include family status, source of income, approximate age and your perception of the driving forces behind their negative or positive responses. You can then hold regular meetings to review and discuss this and any other feedback from the sales staff. This information will allow you to keep your marketing strategies flexible to respond to changing conditions or unforeseen problems.

Advertising and Other Marketing Activities

Advertising should occur regularly and be designed to appeal specifically to the target market. You should also strive to tailor media and sales events to the target market while satisfying the dictates of your marketing budget. Monitor response to advertising in local newspapers and other publications, using sales centers and open house events, and mailing flyers and brochures to potential buyers. You can then update all advertising and marketing data frequently, present them to sales staff, and discuss them in regular meetings to find new strategies and discard unworkable ones.

Selling the Project

The strategy for selling the project depends on whether you will sell to builders only, to home buyers only, or a combination. This is the first decision to be made in designing a sales strategy.

Selling to Builders

Whether you will be the only builder in a community or will allow other builders to buy lots depends on several issues. The advantage of being the only builder is greater control over design and construction standards as well as higher profits if the project is successful. However, carefully weigh this decision against your company's capacity to meet the anticipated project absorption rate. Your company's cash position and ability to take risks, obtain financing, mobilize subcontractors, and increase staff should be considered. If a project's appeal is strong but you do not have the capacity to keep up with the demand, consider selling lots to other builders to maintain momentum while the market is good.

When selling lots to builders solely or in part, decide on the standards to use for prequalifying them. Selected builders should be limited to those who meet these qualifications. Prequalification standards include builder reputation, financial and manpower capacity, safety record, project completion record, and bonding capacity.

Before you begin selling lots to builders, develop a written document outlining the following performance standards:

- design and construction standards
- standards for noise, dust, erosion, and runoff control
- methods for installing temporary utility service and roads
- methods for materials delivery and storage
- safety requirements
- time limits for project completion
- behavior of construction workers
- clean-up standards

Clearly communicate the contents of this document to each builder, who must agree in writing to adhere to the standards.

In the post-development construction period, carefully monitor each builder's compliance with these standards with a warning about fines for builders who fail to adhere to them. Use your prequalifying program and performance standards as a marketing tool to assure potential buyers that the community intends to maintain a high standard of quality throughout sales and construction.

Selling to Home Buyers

If you are selling the project to home buyers, base your sales strategies on techniques that appeal most to the target market. Various groups respond differently to heavily structured, hard-sell tactics as opposed to a more hands-off approach. Some groups, such as first-time buyers, need and want to be educated. More experienced buyers will not respond well to this approach. The way the model center is used and the time when it is open should relate well to the lifestyle characteristics of the target group. Some groups have more time than others and enjoy being catered to with conversation and refreshments. Others just want to get down to business.

One important decision is what the sales staff should sell: the lifestyle offered by the community or the home itself? Another question: whether to answer buyers' fears regarding security, safety, privacy, retained property value or energy efficiency or emphasize the more positive aspects of the development, including recreation, leisure activities, and social interaction with neighbors.

Reducing Risk in Today's Marketplace

In today's competitive marketplace, you as the developer must take greater care to reduce the risks inherent in land development. The first step in reducing the risks associated with a new venture and ensuring success remains a well-prepared market study. The information it provides can give you solid reasoning to back many of the future choices you will be required to make. Use the market study as the driving force behind all decisions concerning project cost and scheduling, type of master plan concept and homes, and project location. The study can also form the basis for developing your marketing and selling strategies.

Remember that the market study can clarify your goals for the new project to lenders and investors. A thorough and well-presented market study provides a convincing piece of evidence that your project has the potential to succeed. As such, it is an important part of the project documentation you present to lenders and investors when seeking financial backing.

Always continue to educate yourself about the market. Home buyers today are more conscious of the choices available in homes and communities because of an unprecedented increase in media coverage which began in the late 1990s and includes everything from publications to television. Attend continuing education classes offered by various organizations and private enterprise as well as professional conferences. Finally, study the Internet. Many developers have websites to showcase their company, new communities, and homes. The public is looking at these same websites; it's also a good way to get to know your competitors.

2

Financing Your Project

The best project ideas in the world amount to nothing more than wishful thinking unless you have the capital in place to finance the project. But finding sources of capital for land acquisition and development can be challenging. Sources may vary according to shifts in prevailing economic conditions or newly enacted regulations. This creates both a fluid list of capital sources you might use to obtain financing and an ever-changing list of documentation requirements and regulations. For example, consider the prevalence of savings and loan institutions (thrifts) funding land development in the 1980s compared to today. When it comes to financing, the rules of the game always seem to be changing.

Federal regulations now require banks and thrifts to have written guidelines for land development, residential construction, and commercial lending. These guidelines include definitive procedures for evaluating loan applications and administering loans. This mandate and many others are contained in the Real Estate Lending Rules, which were issued jointly by agencies that regulate insured banks and thrifts. They went into effect in 1993. One important aspect of the rules is the specific guidance on loan-to-value ratios. Figure 2.1 Loan-to-Value (L-T-V) Limits shows the ratios that banks and thrifts must generally follow for each type of loan category. Note,