Economic Development Planning Skills

Class Three: Market Analysis

Uses of Market Analysis

- Assess market feasibility for economic uses and type of development at specific sites
- Define target industries to attract to a community or development projects
- Determine market potential/recruitment targets for commercial districts
- Improve understanding of customer markets for existing businesses to inform technical assistance and promotion work
- Inform zoning and project design for land use, project and site planning
- Feasibility analysis and planning for development finance institutions

Market Analysis Framework

- Four steps:
  - Demand side analysis
  - Supply side analysis
  - Analysis of special conditions, opportunities and market segments
  - Integrate analysis to define target markets, development & business opportunities, unmet demand
- Combine quantitative & qualitative methods
  - Address gaps and limitations in secondary data
- Identify under-served market opportunities

Analysis Varies by Development Type

- Demand generators/analysis) varies by use:
  - Retail demand is driven by local income, spending and customers segments
  - Office and industrial real estate demand is driven by business and employment growth
  - Financial services demand driven by demographic factor and needs of niche businesses & non-profits
- Variation in supply side analysis
  - Retail market analysis focuses on competition from existing and future stores
  - Office and industrial analysis focuses on competition from current vacant space and future projects
  - Development finance market focuses on services and competition from banks and alternative financial institutions

Retail Market Analysis: Development Site Demand Analysis

- Define market or trade area
- Determine no of households and total household income (US Census, Population & Income Estimates)
- Estimate spending for different product and store categories (Consumer Expenditure Survey)
- Can build a more complex spending model tailored to different income and demographic groups
- Adjust for likely market share based on competitive differentials (site locations, size and quality of competing centers, and normal leakage).
- Estimate sq. ft. of retail space supported by resulting sales (Dollars and Cents of Shopping Centers)

Retail Market Analysis: Development Site Supply Analysis

- Identify competing stores in and near trade area
- Assess competitive differences between site and competing stores: consider location, access, size, and quality.
- What planned or potential stores may enter the market area, e.g., national & regional retail trends
- From this information, estimate the share of trade area sales that a new store at the site could achieve
- Calculate the dollar value of this market share
- Convert the sales into supportable square footage with industry data on average sales per square foot for comparable stores
- Can tailor analysis to specific customer types

Brockton Supermarket Analysis

- Analysis for empty discount store site
- 1.5 mile trade area with 17,585 households and $619 million
- Grocery/supermarket spending of $71.1 million, 56.8 mm in trade area
- Support for 113,600 to 162,300 square feet of supermarket space
- Competition from 5 supermarkets
- New chain store could gain 10 to 15% market share; independent store could get 7%
- Sales too small to support for a chain store—only 11,000 to 17,000 sq ft
- Independent sales could support 11 to 13,000 sf.

Community or District Sales Gap Analysis

- Analogous method for an entire community or commercial district
- Help identify expansion/recruitment opportunities for overall community, neighborhood or business district
- Use total retail sales data for store types from US Economic Census or estimate from inventory of store square footage and sales per sq. ft. foot
- Compare trade area spending potential to sales estimate sales gap
- Use sales per square foot to estimate maximum supportable square feet from gap
- What are the potential pitfalls and limitations of this method?

Brattleboro Sales Gap Analysis

Store Type	1999 Estimated Total Annual Spending ($000)	1999 Estimated Annual Sales ($000)	Sales Gap ($000)	Spending Capture Rate
Furniture and Home Furnishings	$ 21,156	$ 3,883	$ (17,274)	18%
Electronics and Home Appliances	$ 12,986	$ 8,129	$ (4,857)	63%
Bldg Materials, Garden Equip. & Supplies	$ 16,378	$ 12,824	$ (3,554)	78%
Food and Beverage Stores	$ 98,870	$ 63,878	$ (34,992)	65%
Clothing and Clothing Accessories	$ 28,455	$ 13,628	$ (14,827)	48%
Sporting goods, hobby, book and music	$ 12,856	$ 5,238	$ (7,618)	41%
Services (restaurants)	$ 75,833	$ 26,825	$ (49,008)	35%
Arts, Entertainment and Recreation.	$ 24,867	$ 9,083	$ (15,784)	37%
TOTAL	$ 353,949	$ 175,097	$(178,852)	49%

Market Analysis for Overall Commercial District Planning

○ More complex factors influence market potential for districts:
  - Agglomerations and mix of stores affects who shops and how people shop
  - District may focus on specific customer/demographic niches
  - Consumer image/perceptions of the district affects its market
  - Developed buildings affect size and type of potential tenants
  - Multi-faceted competition
  - Can district differentiate itself from other commercial centers and competition?

Market Analysis for Overall Commercial District Planning

- Supply Side Tools to Deepen Analysis & Address These
  - Inventory and analyze business mix to identify agglomerations, comparison shopping niches customer segments served, and spatial relationships among stores
  - Compare business mix and concentrations to competing areas to inform strengths/weakness and market opportunities
  - Analyze vacant land and building space for opportunities and constraints for different types of stores
  - Business surveys to gauge business performance, customers, perceptions of district and support for improvement options

Market Analysis for Overall Commercial District Planning

- Demand Side Tools
  - Customer surveys
  - Focus groups
  - Interviews

Surveys

- Survey Types:
  - Intercept
  - Telephone
  - Web-based
  - Mail
- Type of Information Survey Can Supply
  - How customer use of the district
  - Market segments served and underserved
  - Customer perceptions and evaluation of the district
  - Differences shopping patterns across groups
  - Competing areas for different products and services
  - Test customer response to various improvements
  - Test customer response to different value propositions or marketing themes

Key Informant Interviews

- Gain knowledge of market conditions and trends from "subject matter experts"
- Gain information on informal activity and niche markets for which little secondary data exists
- Test understanding gained from quantitative and survey analysis
- Build support and buy-in from key stakeholders
- Generate ideas and gauge support for future plans
- Key Informant Methods
  - Develop standard interview protocol; may vary by type of informant
  - Create list of knowledgeable informants; make sure list is representative of community and markets you are studying
  - Conduct and document interviews
  - Summarize and analyze interview results

Focus Groups

- Same purposes are key informant interview
- Particularly helpful in developing and testing ideas or new products/services
- Helps gauge issues, priorities, biases among specific groups
- Focus Group Methods
  - Define type of focus groups to conduct (audiences)
  - Recruit participants (6 to 10 is goal; need to invite 2x)
  - Discussion questions/guide
  - Separate moderator and recorder
  - Summarize and analyze discussion results

Tailoring Retail Market Analysis to Urban Neighborhoods

- Urban market niches or demographic groups can increase sales by expanding the market area served and/or changing market share
- Adjust total households for census undercount or recent population changes
- Total income and spending may need be adjusted by informal economic activity & remittances
- Informal economic activity alters achievable market share for stores
- Some adjustments can be quantified; other can be consider qualitatively
- Type of market expansion potential to consider:
  - Draw from a larger market area by serving specialized customer niches or co-ethnic market
  - "Visitor" component to demand: employees, students, tourism, or other non-residents (avoid double counting)
  - Serving nearby institutions

Office and Industrial Market Analysis: Demand Analysis

- Analyze job base and growth by sector and industry to identify where real estate demand exists
- Review data on space absorption of space by type of use from private real estate industry reports
- Interview real estate brokers and firms to identify local conditions and location factors
- Analysis at both the site/local and regional level
- Interview non-traditional or specialized users not covered by secondary data sources and brokers
- Local goals, site issues and surrounding uses shape decisions on potential uses and industries to target
- Generate findings on feasible types of space, target industries, and property types/characteristic
- Expected absorption of new space based on historic demand, economic trends, site and community location advantages

Office and Industrial Market Analysis: Supply Analysis

- Inventory total space, occupied space, and vacant space by type of use (office, industrial, R&D)
  - Real estate industry reports, directories, key property owners/brokers
- Collect data from planning offices on projects under construction & proposed projects that expand supply
- Interview brokers, developers and economic developers to identify recent trends, large blocks of sub-lease space, market supply gaps, and local strengths and weaknesses.
- Compare existing and planned supply to expected demand for each use
- Identify under-served markets and supply gaps that market is not serving
- Integrate supply and demand analysis to assess overall market potential for different uses, target industries or users, property/project characteristics