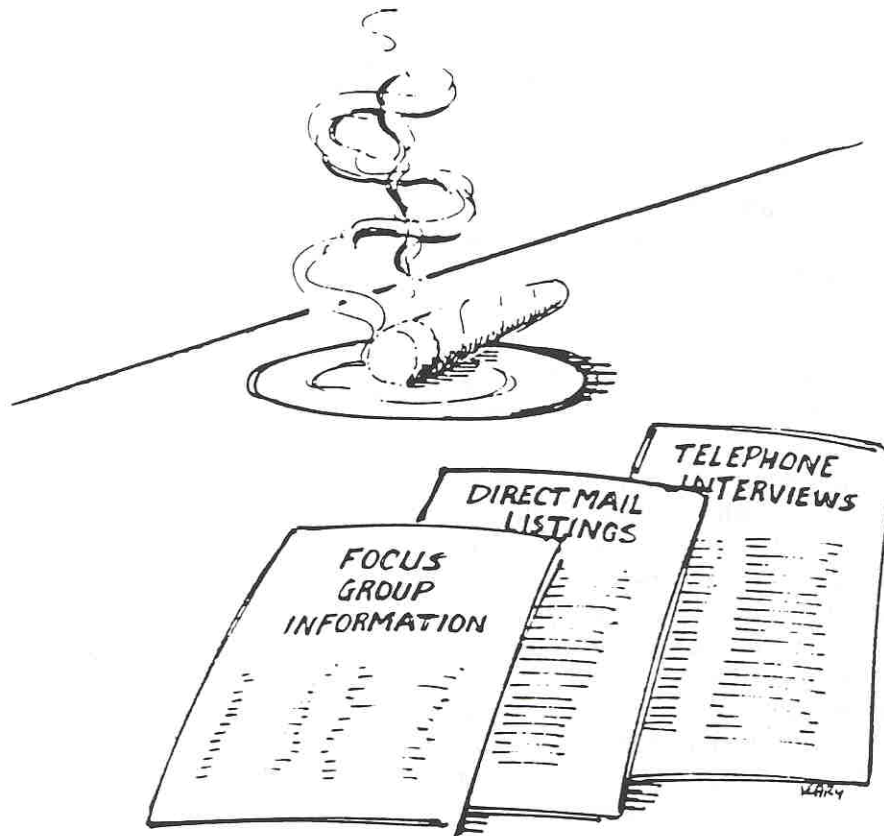


Despite its limitations, consumer research eliminates guesswork and reduces risk.

Low-Cost Real Estate Consumer Analysis Can Pay Off

David Forbes Haddow



MANY DEVELOPERS perceive real estate analysts as academics who have little appreciation or knowledge of what really determines a project's success or failure. This is partly because conventional analytical techniques are inadequate in a dynamic marketplace. Research is usually focused on historical data; it examines comparable projects and current market conditions, and often extrapolates these findings into the future.

But the fact that the past and present do not dictate the future does not mean that developers,

brokers, lenders, and consultants cannot benefit from access to more pertinent information. Since markets are driven by consumers whose needs are constantly changing, a better understanding of consumer tastes and preferences can be useful in project conception and evaluation.

This article describes various applications, methods, and limitations of real estate consumer research. It demonstrates that this type of analysis

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can lead to better judgments about the merits of proposed real estate projects. It also dispels the erroneous notion that consumer research must be complex, costly, or time-consuming.

WHEN TO USE CONSUMER RESEARCH

The real estate analysis that an investor or developer may require can range from a simple inventory of competitive projects to an in-depth investigation of the entire market. Sometimes the investor's common sense and experience are adequate analytical tools. Investors and developers should turn to consumer research when the following conditions prevail:

- No comparable projects exist.
- The property is located in a newly developing area.
- The market is experiencing dramatic change.
- The proposed development is an entirely new product type that is untested.
- There is considerable question about the nature and depth of the target market.

Two Examples

For example, a developer proposes to build a residential country club community in a city that does not have a similar development. There are no comparables to provide input into pricing, absorption, market demand, and other critical variables. He can investigate comparable projects in similar cities, but that analysis does not answer questions about the local market. He wants to know whether he has chosen an acceptable site, whether there is current demand for a residential country club community, what golf appetite exists, and what housing types potential buyers prefer. One method to gain insight into these areas is to survey leading citizens in the community. Such a survey will not enable the developer to quantify demand but it can offer valuable feedback from persons knowledgeable about local consumers.

A second example follows. Suppose a developer plans to build a high-rise office building in a suburban community that has no office building taller than three stories and has experienced no new office construction for ten years. The underlying market support comes from a rapidly developing local economy and substantial pent-up demand, so the plan cannot be dismissed lightly. However, there is a real question about whether potential users will accept an office tower of contemporary design in a market in which traditional, low-rise construction is

clearly the norm. A Chamber of Commerce directory provides the developer with a list of sources to help answer this question. Telephone interviews with the decisionmaker in selected business offices will not only reveal prevailing attitudes about the proposed development, but will also lead to a better knowledge of the office market's composition.

Probing Market Depth and Characteristics

The nature and depth of a target market are often best addressed by consumer research. For instance, luxury hotels are patronized by a finite segment of the overall market. In order to determine whether there is sufficient demand to support a proposed facility, the developer must first identify potential demand sources, find a way to communicate with them, and study their reaction to a proposed development. Obviously, it is impossible to precisely quantify demand by means of such surveys, but direct feedback from potential customers can tell the developer a good deal about the nature of market support.

Consumer contact helps define the demand side of the market. It offers insights that cannot be obtained by studying buyer profiles at existing developments or tapping the collective wisdom of local brokers and other real estate professionals, although these sources are most valuable. Efforts to pioneer new types of development can result in great profits or dismal failures. Consumer research can help provide a better indication of which outcome will prevail.

CONSUMER RESEARCH METHODS

The four consumer research techniques most often used are:

- Direct mail;
- Telephone surveys;
- Interviews with selected individuals; and
- Focus groups.

The research method that a developer selects depends largely on the type of feedback that he seeks. In the previous example of the country club community, the developer was looking for general feedback from a specific group. It was not a target buyer group, but a cross-section of long-time residents that could offer insights into community attitudes and needs. Any of the four research techniques could have been used. Interviews with selected individuals and a telephone survey of 100 leading citizens was the proposed approach.

The following discussions describe each research technique and an actual application.

Direct Mail

The most comprehensive and least costly way to obtain consumer feedback is a mail survey. The surveyor's first step is to develop a mailing list. This can be a simple or complicated task.

Sometimes the target group is easy to identify, and it is simple to obtain a list of members of that group. This is particularly true if the target can be identified as residents in specific locations. But the target consumers for special-use properties (hotels and country clubs) are more difficult to identify. And once the group characteristics are specified, it may be difficult to obtain a list of individuals that possess these characteristics.



The next step is to design an appropriate questionnaire. The questionnaire should be short enough so that it does not intimidate the recipient, but long enough to ask the relevant questions.

The questionnaire should have a cover letter that informs the respondent of the survey's purpose and requests return of the questionnaire within ten days. The mailing should also include a self-addressed, stamped return envelope. Recipients of the questionnaire who do not respond within the requested ten days should be sent a postcard that reminds them of the survey's importance and restates the need for a complete response. Some surveys use incentives to increase the response ratio. An incentive that usually works is an offer of a \$1 contribution to a popular charity for each completed questionnaire.

We recently undertook a mail survey to study the feasibility of a proposed condominium project adjoining an existing marina. The property was

located on a large lake in an area that had not experienced previous condominium development and had a limited boating season. Our problem was similar to the one in the initial country club development example. We needed data on the following subjects: (1) community perception of the site location; (2) depth of market demand for lakefront housing; (3) preferred types of housing; (4) demographic characteristics of boat owners renting slips at the marina; and (5) potential market penetration.

No comparable property existed to help with the analysis. Questionnaires were sent to 600 persons who were either renting slips at the existing marina or who were members of the adjoining yacht club. The mailing lists were supplied by the two organizations. The questions sought to identify the demographic characteristics of the respondents, their assessments of the property, and the level of interest in lakefront housing. The four-page questionnaire was completed by 249 respondents, a 41.5 percent response rate. The data was entered into a computer by the Survey Research Center of a local university. We obtained percentage distributions of responses for the total response group and a variety of cross-tabulations that isolated responses for specified control variables, such as age of household head, residence location, owners of boats at least thirty feet long, and household income level.

The survey results produced the following types of needed information:

- An excellent demographic profile of the potential target market;
- Information on boat ownership and usage and commuting patterns;
- Information about the target market's perceptions of the subject property; and
- Feedback about preferences in housing construction, unit types, unit sizes, numbers of bedrooms and baths, acceptable price ranges, and amenities.

These market preferences were incorporated into the project plan, leading to a development approach that was more responsive to the market.

Telephone Surveys

Telephone surveys produce a higher response rate than direct mail surveys, but they are more expensive. However, the quality of the responses to a telephone survey are usually superior to those of a mail survey. A telephone interviewer, if properly trained, can make sure that respondents clearly

understand the questions. The interviewer can explain the characteristics of the project and the purposes of the study more clearly. It is also argued that telephone survey respondents are more representative of the market than mail survey respondents because they include persons who would not reply to a mail survey.

We recently undertook a telephone survey in order to evaluate the development potential of an industrial property. We wanted to identify the factors that influenced manufacturing firms in their site location decisions. We believed that this information would help us identify potential target industries and enable us to evaluate more accurately the prospects of attracting these firms.



We contacted sixteen of the city's largest manufacturers by telephone, all but two of which had moved into the area since 1970. In response to our questions, they supplied us with descriptive materials about the firms, and they rated the importance of twenty-four factors that might have influenced their most recent location decision. We learned a great deal about the existing industry mix and the community's major strengths and weaknesses as a location for manufacturing activity.

Interviews With Selected Persons

Conversations with knowledgeable persons can prove most enlightening, particularly if the individuals who are interviewed represent a broad spectrum of opinion or experience. Interviewees must be selected with great care. If the interviewees are unrepresentative or uninformed, the information they supply can be misleading. The surveyor's challenge is to select the best sources and to digest properly the information that they provide. Those interviewed are likely to produce a variety of answers to the same questions, and it is the interviewer's task to arrive at the most reasonable conclusions.

This interviewing technique is particularly successful in providing information about small communities because local decisionmakers are usually readily accessible. Meetings with bankers, politicians, realtors, business owners, merchants, and

other civic leaders should give the developer or his staff a good knowledge of the community and enable them to make reasonable assessments of a local property's development potentials.

Interviewing skills are acquired through practice, but a few basic rules always apply:

- The interviewer should establish a personal rapport with the interviewee to promote full cooperation and thoughtful answers.
- The interview should not exceed an hour, because longer interview sessions are an unfair imposition and may lead to hasty responses.
- The interviewer should list a series of questions in advance and allow sufficient space on the form to record the answers; he should be more than a stenographer, utilizing follow-up questions to clarify or challenge certain answers.

Focus Groups

The use of focus groups is a market research technique long used to investigate consumer perceptions. The technique can also be utilized for real estate analysis. The researcher leads a group of eight to ten persons (either randomly selected or chosen to represent a particular target group) through a one- or two-hour group discussion that covers a range of topics. Participants receive some nominal compensation for their time. Market researchers believe that a properly conducted focus group can provide extremely useful information about consumer attitudes toward specific products.

Consequently, focus groups may be an excellent way to test a project's appeal in an unproven market. We recently undertook a study of downtown housing in a city that had very little urban residential development. Tenant profiles at existing residential projects offered little insight due to the limited number and age of the projects.

Would workers consider living downtown if attractive housing was available? The local planning department had addressed this question a year earlier by means of a mail survey of downtown workers. The results of that survey were inconclusive because the questionnaire did not identify a specific project or site. Respondents were unable to visualize the range of development possibilities and were unable to give an informed response.

Focus groups can solve this kind of survey problem. The group(s) could be selected from downtown workers or from other potential demand sources in some manner that would ensure that each group was a representative sample. The group

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leader could suggest site locations; offer building renderings and floor plans; and suggest amenity packages, parking arrangements, and other project ingredients. The group would react and might include new ideas in their comments and assessment. If the interviewer is persuaded that the group or groups are representative, he comes away with important feedback about the possibility of attracting tenants to downtown housing.

LIMITATIONS OF CONSUMER RESEARCH

Time and money constraints limit the ability of real estate professionals to do consumer research. However, if the investor or developer can identify the critical questions, he can accomplish much without an inordinate commitment of resources. For instance, he can hire part-time help to conduct a telephone survey. His mail surveys can be orchestrated by the clerical staff once he has designed the questionnaire and formulated the mailing list. Universities have research centers that provide these services at reduced rates.

The out-of-pocket costs for a mail survey of 600 people are about \$2,000, a sum that includes the

cost of postage, printing, paper, and data processing. A telephone survey contracted with an outside consumer research firm or university costs about \$15 to \$20 per response. This sum includes sample selection, data collection, and processing. If the survey is brief and the sample is already identified, the cost may run as low as \$5 per response. The major expense of focus group sessions is the cost of the trained group leader. A recent cost estimate for running two focus groups was \$7,500, which paid for the leader, compensation for the participants, and all other costs.

There are limitations to the usefulness of consumer research findings. The techniques that we have described produce a snapshot of the market, not a detailed portrait. The conclusions of consumer research should be confirmed by other types of data. Market studies that base conclusions solely on capture rates drawn from some form of consumer research are automatically suspect. Although consumer research can make a significant contribution to a market study, it is important to recognize its limitations and to utilize good judgment in interpreting the findings.