

Making the City Overview Meaningful

By David Forbes Haddow

Readers of appraisal reports tend to bypass the "city overview," the section that depicts conditions in the local economy and real estate market. One reason is the time required to digest what is usually a long report; the other is that the city overview frequently holds little promise of enlightenment. It usually reads like a handout from the local chamber of commerce, which is often the sole information source for data on the city's economy, population, and development activity.

Because of time and financial constraints, appraisers often prefer to focus their efforts on the subject property and the research needed to arrive at and document a value conclusion. Unfortunately, the importance of broad market trends is often overlooked. The city overview is generally devoid of the critical analysis or projections of future events that should be its major thrust. The purpose of this article is to describe a simple method for making the city overview meaningful, both to the appraiser in estimating a property's worth and to the reader seeking a balanced presentation of factors that influence real estate values.

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Content and collection are the most important initial considerations in writing the city overview. The subject matter should be pertinent to the valuation question and organized in a manner that will draw the reader's interest and lead to a cogent set of conclusions. The data must be timely and drawn from a variety of sources to provide an accurate portrayal. The goal is to develop a sound basis for predicting the future and to do so without expending too much time.

CONTENT

Five major topics comprise the city overview: 1) historical background, 2) demographic trends, 3) economic base, 4) major new developments, and 5) population and employment forecasts. The following brief discussions identify relevant issues.

Historical Background

Appraisers should understand the city's origins and evolution as reflected in population, employment, and land use trends. This historical perspective can prove very helpful; for example, the city of Midland, Texas, once rode the crest of a boom in oil exploration and drilling, then slowed down due to declining oil prices and world oversupply. An appraiser describing Midland would want to know if any precedent exists for the slowdown and, if so, how the city was affected previously. Midland, a boom town in the 1950s, nearly became a ghost town in the 1960s when oil companies shifted their drilling activity to more lucrative overseas markets. The city's dependence on the oil industry left it highly vulnerable to economic trends. Although today's situation is vastly different from that of the 1960s, some important parallels do exist. The mere knowledge of past events makes for a more informed judgment of present and future trends.

Demographic Trends

Real estate demand is greatly influenced by population characteristics of the market. Changes in population composition require new approaches to real estate development. For example, the growing incidence of one-person households has increased demand for multifamily dwellings as well as smaller unit sizes. Increased divorce rates and delayed marriages have led to household growth in excess of population gains in many cities, altering the nature and extent of housing demand.

Census data provide the raw material used for construction of a demographic profile of a county, city, or region. The nature of the property and market served determine the statistical area studied. If a subject property is located in a major metropolitan area comprised of several political jurisdictions, each having a significant population and employment base, a profile of the county is more meaningful; metrowide data should be used for comparative purposes only. In Atlanta, Georgia, for example, the metro

area is comprised of 5 major counties and 13 smaller adjoining counties. While economic and other ties exist between the counties, each area has its own unique character. These differences influence the nature of development as well as property values.

An appraiser should examine such demographic characteristics as age distribution, marital status, income, occupations, education, housing, and household size. It is possible to identify shifts in the population composition by comparing data from at least two time periods. Although this statistical portrait must be supplemented by insights gleaned from other sources, it is the most effective way to gain a quick, unbiased perspective on relevant demographic trends that influence real estate demand.

Economic Base

The local economy is the key to understanding a city's possible future trends. An appraiser should ask the following questions: How has the employment composition changed over time? Who are the major employers? What industries, if any, dominate local employment? How well has the city endured previous nationwide recessions? Which major factors have shaped the economy? Is there a concerted effort to recruit new industry and alter the economic base?

A breakdown of nonagricultural employment by industry reveals the job composition and degree of balance in the economy. If 50% of all jobs are in manufacturing, the labor force is likely to be largely blue-collar and more vulnerable to economic downturns. If the service sector of the economy is large, the city probably has substantial office employment and would prove fairly resilient to nationwide recessions. Trends reflecting industry growth rates and concentration are important indicators of future economic activity.

While a city may not be dominated by a single employer, it may have several employers tied to the fortunes of a single industry, making the city equally vulnerable to shifts in consumer demand. High Point, North Carolina, for example, is dominated by two industries: furniture and hosiery. Many different companies employ workers in these industries, but this does not provide economic diversification.

Economic indicators can help an appraiser measure a community's vitality and resilience to nationwide recessions. These include the unemployment rate, retail sales, housing starts, employment growth rate, building permit values, and the tax base. Comparative analysis between time periods and with other statistical areas can prove quite revealing. Economic indicators, like demographic data, are an excellent point of reference and barometer for measuring change.

Major New Developments

Statistical data often fail to reflect the most current trends affecting a community. The relocation of a large company to a small town could

significantly change the nature of real estate demand, but the impact would not be reflected statistically until the next employment survey and census. A referendum allowing liquor sales by the drink in restaurants would increase demand for restaurants, resulting in higher land values for well-located commercial sites. A new regional mall would alter shopping patterns and drastically increase land values near the mall site. Major road improvements can increase value faster than anything else. Therefore, an appraiser must have a current awareness of major new and anticipated developments that may shape a community's future and affect property values.

Population and Employment Forecasts

Chronicling past and current events is far easier than projecting the future; however, property value, particularly that of undeveloped land, is largely based on the market's expectations of future events. Therefore, an appraiser makes judgments concerning population and employment growth based on available evidence and assesses the investment community's perception of the future. Sufficient information is available for making broad projections or confirming those made by government agencies or other forecasters, but gauging the investment climate is infinitely more difficult. The following section will offer some suggestions as to methods of data collection to gain this necessary insight.

COLLECTION

The chief goals of gathering data for the city overview are to identify and evaluate pertinent issues that may influence value and to limit the time involved in doing so. This means that the approach should be broad in scope, but focused on key indexes so the task can be expedited.

The first step in an appraisal assignment in another city is to obtain reports from the chamber of commerce and planning department, surveys conducted by local real estate firms, and articles in trade journals. This material provides a basic knowledge of the community and its real estate market.

An appraiser should arrange to meet with the economic director of the chamber of commerce, a long-range or land use planner in the city planning department, and a labor analyst from the local office of the state labor department. Additional meetings should be scheduled with active real estate brokers, developers, and investors. A discussion beginning with the overall market should gradually proceed to the specific submarkets and property types. The appraiser should use any available time to drive around the city in order to gain familiarity with major land use patterns.

Having completed the required fieldwork, the appraiser should review published reports, maps, and statistical data, keeping in mind the recommendations of knowledgeable local observers. Follow-up calls will be necessary to obtain answers to additional questions raised. The resulting narrative

report should be organized by historical background, demographic trends, economic base, new developments, and population and employment forecasts. Demographic and employment charts lend support and detail, as do maps.

A day of meetings and another day spent reviewing and writing may seem excessive for the overview section of an appraisal report. However, far more is accomplished during these two days than ultimately appears in the city overview. First, these initial contacts are very good sources for leads on real estate sales and rental data. Second, they can provide a local perspective of the subject location and market area that may be lost to an outsider. And most importantly, they help raise questions concerning various factors that may influence the property valuation. Once equipped with a basic knowledge of the community, the appraiser is better able to pinpoint relevant issues and understand factors affecting real estate values.

CONCLUSIONS

Appraisal reports are widely perceived as dull reading, while appraisers are often criticized for failure to address issues relevant to the valuation question. These issues usually pertain to overall supply and demand trends, population characteristics, and factors influencing the local economy. This type of critical analysis belongs in the city overview section at the front of an appraisal report. Without it, the conclusions at the back of the report have less merit.

By concentrating on relevant issues and drawing from a wide variety of sources, the appraiser can gain a valuable understanding of forces shaping a community. This can be accomplished within a reasonable time frame if the research is focused and purposeful. The result is a meaningful city overview and a better-informed valuation.