



Real estate counseling is not a science. This essential truth is lost on many practitioners. Efforts to systematically analyze real estate market behavior inevitably fail. This article explores the fallacy of a scientific approach to real estate analysis, offers a basic problem-solving technique, and outlines the qualities of a good consultant.

### Why the Scientific Method Fails

Any attempt to quantitatively model the real estate market ultimately becomes an abstraction. It may start off sound, but the analyst usually goes too far. The project turns into a sort of laboratory experiment with few controlled variables. The scientific method does not apply to real estate problem solving for several reasons: market behavior frequently defies logic and precedent; many important variables are not measurable or predictable; and the modeling process cannot capture the real workings of the market.

The greatest danger in relying on models and other quantitative measures is that it lulls consultants and their clients into a false sense of comfort. Complex equations and charts lend an aura of sophistication to the analysis. What tend to get overlooked are the real factors that influence a project's success or failure.

Hotel market studies are a good illustration. Typically, the consultant identifies competitive facilities and assesses their supply/demand characteristics. This information is quantified and put into a model of the competitive market. Projections of future demand and room supply are made, and the subject

property's capture rate is estimated, often in an arbitrary manner. Room night demand for the proposed facility is projected by a simple mathematical computation, and the average room rate is usually based on rates at competitive facilities.

The logic of this type of analysis is most tempting; indeed, it wins over most reviewers. The problem is that the model's output is only as good as its assumptions. Usually, the modeling process oversimplifies market realities and contains some baseless input. Key variables are often overlooked, such as access to the property, the building's architectural design, the quality of the hotel operator, and the true character of demand. Inordinate effort is often devoted to the modeling process, sometimes to the detriment of common sense and the neglect of critical issues.

This is not to say that modeling is totally without merit. It can be an important tool to organize data and establish a framework for analysis. The danger comes when the analyst relies on the model to solve the problem.

### A Basic Problem-Solving Technique

An alternative to the scientific approach is a return to the basics, beginning with the simple, but critical, process of setting up the assignment. Three steps are involved: define the problem, identify the critical issues, and devise a study method. These initial steps set the direction of research and largely determine the quality of analysis. Unfortunately, they are often lightly passed over in the rush to get underway.

Problem definition is essential. This should be conducted jointly with the client to ensure that the re-

search is focused and purposeful. Sometimes clients do not really know their own needs, so care must be taken to pinpoint the problem. Once the problem is defined, the next step is to identify critical issues. These questions must be answered to solve the problem. It is impossible to identify all of these issues at the outset, but most are self evident. A study method that involves the selection of sources and techniques needed to gather pertinent data is then devised.

Take, for example, a company that has a surplus manufacturing facility in an overbuilt market. The problem is to assess the property's marketability to determine a likely selling price and timing. Some of the critical issues are the property's positive and negative physical and locational attributes, the prices and availability of comparable facilities, the nature of the potential target market, the local economic climate, the impact of overbuilt market conditions on prices and buyer attitudes, and the local government's willingness to provide incentives to attract new industry. The study method involves meeting with several industrial brokers, reviewing industrial space supply and absorption data, consulting the various entities engaged in recruiting new industry, inspecting the property, and evaluating the community's manufacturing base and economic outlook. A combination of primary and secondary data is gathered, with the best insights coming from people directly engaged in the industrial market.

Once research is completed, the astute consultant organizes the data and outlines the basic findings. In the above case, this might include listing the property's pros and cons, compiling summary tables on the industrial market, and gathering various statistical indicators concerning the health of the local economy. The observations gleaned from interviews are reviewed to extract meaningful insights. The consultant must sift through these often conflicting accounts and arrive at conclusions supported by other research. Once the critical issues have been addressed, problem solving can truly begin.

The best way to learn about the real estate market is from its participants: brokers, developers, tenants, investors, economic development agencies, lenders, planners, architects, contractors, and property owners. Primary data collected from these sources should be supplemented by secondary data on the economy, demographic characteristics, employment trends, and market conditions. The consultant must keep a balanced perspective and remain objective, remembering to focus the research effort squarely on the problem.

Judgments are required that cannot be supported by quantitative data or proven scientifically. Disguising these judgments behind a labyrinth of statistics is foolhardy and deceitful. Solving real estate problems is not an easy task, partly because absolute answers are seldom found. Good consultants must draw upon many resources, not the least of which are

their senses, in order to approach the level of comfort afforded by a mathematical proof. While these conclusions are still judgments, they are the best possible.

## Qualities of a Good Consultant

Real estate counseling services vary greatly in scope and quality. The individual actually performing the work shapes the outcome. Qualities to look for in a good consultant are:

- a high level of curiosity and pride;
- a genuine interest in people and the ability to conduct interviews in a relaxed, informative manner;
- good common sense and a broad perspective;
- the gift of concentration;
- the humility to know the limits of what can be safely predicted or understood;
- a talent for organization and detail, combined with the imagination and creativity to employ it productively; and
- an appreciation of the importance of basic research and the ability to communicate effectively, both verbally and in writing.

These personality traits hardly resemble a formal list of qualifications. Clearly, an educational background in business, history, city planning, landscape architecture, or related fields is helpful. Previous real estate experience in brokerage, development, mortgage banking, or property management is also beneficial. But these educational and work experiences are secondary to the intrinsic qualities that shape a person's work ethic, aptitude, and character.

If these characteristics make a good real estate consultant, what qualities are often found in a less-capable one? These are a tendency to quantify everything; discomfort with new people and reluctance to conduct personal interviews; undue reliance on secondary data; motivation based more on pecuniary interests than on a quest for knowledge; arrogance about one's depth of understanding; tendency to draw pat conclusions and inadequately support findings; and an underlying indifference to a client's true needs.

Success is measured in two ways: the ability to properly define the problem and consequently address the client's needs, and the extent to which the problem is solved. Real estate counseling is truly an art because it has very little scientific basis. The best practitioners combine their powers of concentration, intellect, and imagination with a genuine desire to help people and to pursue answers to often difficult questions. The profession's future growth and integrity depend on its ability to attract and nourish people with these qualities. ■

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