Market Analysis for Commercial Investment Real Estate
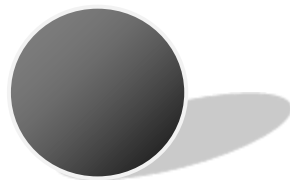
Pre-Case Study:
Economic
Analysis

In This Module

CCIM

Pre-Case Study:
Economic Analysis

Module Snapshot

Module Goal

Economic Analysis consists of pre-case study tasks to analyze a market area as follows:

The goal of the economic analysis for a market area is to: (a) calculate the current and forecasted employment and population data; (b) review the competitive advantages and disadvantages; and (c) determine the current market cycle positions for employment and various property types.

Objective

▪ Perform an Economic Base Analysis (EBM) and determine the Economic Base Multiplier and Population Employment Ratio for a local market area to use for forecasting future employment and population changes.

▪ Conduct a Shift-Share analysis for various time periods to analyze which employment sectors and exhibited competitive advantages and disadvantages (positive regional shift).

▪ Conduct an Employment Trend Analysis for national and market area to determine the correlation to the US market and the current market cycle positioning.

▪ Determine current market cycle position for a given property type using current Mueller's Market Cycle Report.

Economic Analysis

Task 1: Economic Base and Shift-Share Analyses

Objective

Calculate the market area Economic Base Analysis (EBM) and calculate the regional shift (competitive advantage) for the various employment sectors over various time periods.

Rationale

The premise associated with EBA is that infusion of money or wealth determines the dynamics of a market. This infusion of money allows the market to be liquid, sustainable, and vibrant in proportion to the amount of money entering the market. EBA is used to identify local industry sectors that can produce goods and or services beyond the needs or consumption of their local market.

Shift-share analysis measures how well a market's businesses have performed relative to businesses nationally within an industry. It can help large investors in identifying markets that are strong despite the presence of declining industries, or markets that are weak despite the presence of growth industries. Furthermore, it allows local planning departments and community leaders to better describe and document local employment changes, thus making better, more informed decisions in support of business or in forming industry partnerships.

Resources

ESRI Shift-Share Application: http://shiftshare.stdb.com/

Description of Steps

Link to the website http://shiftshare.stdb.com/

Search for Collin County, Texas with year begin of 2014 and year end of 2019 Next, click on the county to show the EBM.

1. What is the EBM for Collin County? _____

Click the link to the Data Table at the lower left of the map to access the Shift-Share data.

2. What does the total regional shift indicate about the competitiveness of the local economy over the previous 5-year period?

_____

_____

_____

_____

3. Does the Finance and Insurance employment sector appear to have a competitive advantage in the local economy and, if so, is this a good location for a conducting business in the sector?

_____

_____

_____

_____

End of task

Task 2: Employment Trends and Market Cycle

Objective

Determine the current cycle positions for office, industrial, retail, and apartment projects.

Rationale

Understanding the progression of each phase within the cycle is critical in being able to identify investment opportunities, as well as risks that can arise, when the market cycle phases are transitioning. Understanding whether the current position of the market cycle for a various property types and market locations can affect a variety of factors, such as:

- Investment strategies

- Hold verses sell decisions

- Investment return expectations

- Timing of capital improvements

- Leasing term and lease option negotiations

Resources

- Employment Trend Analysis spreadsheet

- Current Mueller Market Cycle Report

- Current BLS - Dallas-Fort Worth Area Economic Summary

Steps for the Employment Trend Analysis Spreadsheet

1. On the green tab entitled "Metro BLS Data Capture":

    Step 1: Click Link to BLS Website (green button)

    Step 2: Select State and scroll up to locate Metropolitan Area

    Step 3: Select Total Nonfarm Employment and click Back Data Icon

    Step 4: Download .xls Spreadsheet (click link)

    Step 5: Copy the spreadsheet cells A1 through M24 and Paste data onto the Metro BLS Data Capture spreadsheet

2. On the yellow tab entitled "U.S. BLS Data Capture":

Step 1: Click Link to BLS Website (green button)

Step 2: Select U.S. Economy (top left)

Step 3: Select Change in Payroll Employment (2nd from the top) and click Back Data Icon

Step 4: Download .xls Spreadsheet (click link)

Step 5: Copy the spreadsheet cells A1 through M24 and Paste data onto the U.S. BLS Data Capture spreadsheet

Note Your Findings

1. How has job growth in the Dallas metro area compared to the overall U.S. job growth over the past 10 years?

_____

_____

2. What is the current market cycle position of the Dallas metro area employment?

_____

_____

3. How does the current DFW market area compare to the U.S. on:

    a. Unemployment rate

    _____

    b. Prices paid by urban consumers

    _____

    c. Average hourly wages

    _____

4. How many total new employees have been created in the past 12-months in the DFW market?

_____

Description of Steps for using the Mueller Market Cycle Report

Step 1: Select the property type page that matches the property type being analyzed

Step 2: Determine the current market cycle position based upon the market being analyzed.

Note Your Findings

1. What is the current market cycle position for Dallas office properties?

_____

2. What is the current market cycle position for Dallas residential properties?

_____

3. What is the current market cycle position for Dallas industrial properties?

_____

4. What is the current market cycle position for Dallas retail properties?

_____

End of task