**Market Analysis for Commercial Investment Real Estate**

**9**

# Case Study 1: Retail Properties

## In This Module

**CCIM**

# Case Study 1:
## Retail Properties

### Case Study Goal

The overall case study goal is to provide a dynamic, interactive and teamwork approach to 'a site looking for user' using STDB and other market analysis tools. The retail case study follows the CCIM Strategic Analysis model methodology by looking at all aspects of the model through the lens of the developer/landlord. This provides the framework for making decisions about the proposed property and identifying users/tenants.

### Case Study Objectives

- Conduct a location analysis to identify the subject property location within the County, determine the market and then the trade area.

- Conduct a site and building analysis to evaluate the subject for potential retail occupancy.

- Conduct political and legal analysis to determine permitted zoning/land use and examine legal issues that impact the use of the subject site.

- Conduct a market analysis to evaluate the potential demand in the MSA/County and then the trade area (using a range of functional geographies) for a retail center using Business Analyst applications and other provided resources.

- Identify supply within the trade area to determine market rents and vacancy for the subject site/building.

- Conduct a comparative analysis of existing store locations as well as competitive sites/trade areas.

- Conduct a financial analysis to consider the current and potential return of the project.

# Case Study 1: Retail Properties

## Client Background

Atlas Real Estate & Investment Strategies primary business is the acquisition, development, leasing, and property management of specialty anchored shopping centers throughout Texas. The company mission is to be a retail leader through timely delivery, and innovative solutions in order to positively impact tenants, partners, as well as the communities served. Where possible, Atlas looks to acquire shopping centers that provide "value added/upside" opportunities through the re-tenanting of existing retail space within the shopping center or the development of retail outparcels or pad sites in growing and dynamic trade areas. This has been a consistent core asset strategy for Atlas throughout the markets they serve in the acquisition of specialty anchored shopping centers.

Atlas recently purchased a specialty shopping center located at 6100 Eldorado Pkwy, McKinney, Texas, 75070. The center has been open for approximately two years with the existing mix of retailers and restaurants performing above market projections. Keeping to their mission, Atlas has planned, designed, and is expected to begin construction of a new retail building on the adjacent pad site in order to add value through the additional income of the new retail building.

## Client Situation

The newly constructed pad site building will consist of a total of 15,000 sf. As the Director of Leasing for Atlas, you have learned that 'Empire Spirits', a regional beverage superstore that carries a superior selection of spirits, a wide array of world class wines, and an assortment of imported, domestic, and specialty craft beer is seeking sites to add to the four units currently operating in the Dallas MSA. With excellent access and abundant parking, the 15,000 sf newly constructed building would be ideally suited for Empire Spirits as it fits their tenant profile and requirements as reflected by their existing stores in other trade areas. The use would complement the existing uses in the shopping center as well as the surrounding trade area.

You've been granted an audience with the CEO and VP of Real Estate for Empire Spirits in order to present the strengths of the shopping center, the surrounding trade area, the market analysis outcome as well as make a financial leasing presentation (Letter of Intent).

## Scope of Analysis

Retail property strategic analysis follows the CCIM Strategic Analysis Model as the framework for making decisions about retail properties. This feasibility analysis is based on matching "users to sites;" either a site looking for users or users looking for a site. The process considers: demand and supply; location, site, and building characteristics; political and legal limitations (if any); and financial analysis. Using the online STDB/BA tools helps identify the relevant information necessary to make informed decisions regarding the Strategic Analysis Model when applied to a retail property.

Let's start by having some fun & learn some basic information about this zip code in McKinney, Texas.

### Instructor-led Class Activity

Go to:

https://www.esri.com/en-us/arcgis/products/tapestry-segmentation/zip-lookup

1. Click "Start Exploring," then enter the subject trade area zip code 75070

2. Analyze "Drive Time" and "Ring Buffer" by clicking on each

3. Click on each Tapestry segmentation/Read More/Click for More Details

4. Click on drop down arrows to change variables

5. Click anywhere within each category column to get additional information

6. Link to Census Quick Facts:

   https://www.census.gov/quickfacts/fact/table/US/PST045218

# Location & Site Analysis

## Task 9-1: Shopping Center Location

### Objective

Create a high level location and site visual for the subject property to determine how the property fits into the market analysis when considering linkages to other land users and the residential base of the trade area.

### Rationale

Using a macro to micro approach moving from a regional perspective to a local (MSA, County, City, Trade Area) level to identify the location of the shopping center provides a visual of the site including street patterns, land-use patterns, barriers and obstacles, and paths of growth within the designated geographic area, including the retail trade area.

### Resources

- Dynamic Maps-Google Earth or Google Maps,

- Static Maps-PDF Copies of Regional and Location Maps

### Steps

Use Google Earth or Google Maps, to identify the location of the shopping center and surrounding trade area within the City of McKinney, Texas.

Location address:

6100 Eldorado Pkwy, McKinney, Texas, 75070

*End of task*

## Task 9-2: Aerial View of Shopping Center

### Objective

Further define the Location & Site Analysis by incorporating the subject property ("Site") thru an aerial view of the subject property.

### Rationale

An aerial view of the subject property provides a bird's eye view of the Location Factors of the site (accessibility to the urban area, accessibility to the site, highways & roads serving the subject site within the trade area, and proximity to the residential base of the trade area) as well as Physical Attributes of the Site and Structure (access onto and off the site-ingress/egress, street frontage, type of setting, structure type, parking, etc.) and proximity to the residential base.

### Resources

- STDB Pictometry
- Aerial View of Shopping Center

### Steps

1. Login to STDB

2. From Dashboard Open Pictometry

3. Type in 6100 Eldorado Pkwy, McKinney, TX (address should autofill)

4. Select Layers, Streets and Places (will populate those attributes)

5. Examine various aerial photos of the subject property and trade area.

   or

   Use static screen capture of Shopping center.

### Note Your Findings –

*Note: Example answers as of 12/12/19 data*

1. Accessibility to the urban area

   *Note the location of the shopping center within the trade area and the ability of customers to get to the property.*

2. Accessibility to the site

*Note ability of customers to get on the site once in the area; traffic signals controlling vehicular traffic as well as median breaks/curb cuts from both Eldorado Parkway and Ridge Road?*

3. Highways & roads serving the subject site within the trade area
*Major traffic arteries, corner location, etc.*

4. Proximity to the residential base of the trade area

   *Note the proximity of the subject side to the surrounding residential neighborhoods, adjacent or proximate land uses enhancing it (positive) or reducing it (negative)?*

5. Physical attributes of the Site and Structure

   *Size (total GLA), shape, height, placement on the site?*

   a. Access onto and off the site-ingress/egress

      *Note number of curb cuts from both Eldorado Parkway and Ridge Road; full movement vs. right-in/right-out only.*

   b. Street frontage

      *Answers will vary; frontage should be measured on both Eldorado Parkway and Ridge Road.*

   c. Type of setting

      *Type and Characteristic of the Shopping Center (Neighborhood, Community, etc.)*

   d. Structure type

      *Freestanding or shopping center, one or two-story, shape of the building?*

   e. Parking

*Parking Deck, surface, or substructure lots; quality issues regarding the parking.*

    f.   Other

*Considerations might include Age/Condition/Quality of the center; Topography, Ancillary land users, Signage, Visibility*

*End of task*

# Political & Legal Analysis

## Task 9-3: Zoning and Legally Approved Use

### Objective

Conduct political and legal analysis to determine permitted zoning/land use and examine legal issues that impact the use of the subject site.

### Rationale

The inescapable nature of political and societal issues requires that no decision be made without a fully vetted feasibility analysis of Political and Legal limitations. Zoning determines the use for a site, both current and future permitted use. A particular type of use for a site, such as the sale of alcohol, might require a special license or be required to maintain a certain distance to a school or church. Otherwise a zoning variance might be required.

### Resources

- McKinney Texas Zoning Code of Ordinances (Section 14-54)
- Static Retail Task 9-3_Zoning Development_standards (PDF Document of Section 14-54 of the McKinney Zoning ordinance).
- Retail Task 9-3_Distance to Merryhill School

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## Steps

Use link to McKinney Code of Ordinances to confirm the legal use. Static document also provided with just this particular zoning section.

## Note Your Findings

*Example answers as of 12/17/19 data:*

1. Does the McKinney zoning code allow legally permissible use for liquor?

   *Beer and wine for off-premises consumption only.* The sale of beer and wine is permitted only in a zoning district where retail sales are allowed

2. Are there concerns with surrounding properties or property uses which would impact site use for liquor?

   *Schools must be 300 feet (property line to property line). Merryhill Preschool is on the adjacent property but approximately 950' away.*

*End of task*

# Task 9-4: CCR's and/or REA

## Objective

Identify regulatory considerations for a retail shopping center based on CCR and REA documents.

## Rationale

In addition to Political and Legal considerations, often times retail shopping center have Covenants, Conditions, & Restrictions (CCR) and/or Reciprocal Easement Agreements (REA) that must be reviewed in order to prevent violation of existing restrictive uses as well as understanding the Tenant's legal rights to use shared areas such as parking, ingress/egress etc.

## Resources

- Retail Task 9-4_Atlas RE CCR's (Static copy of Atlas Real Estate CCR's)

## Steps

Review documents for purpose and understanding.

## Note Your Findings

*Example answers as of 12/17/19 data:*

1. Per CCR, are there any restriction for property use as a liquor store?

   **Refer to Exhibit B of the CCR document**

2. Are there any limitations with regards to ingress, egress or parking?

   *See section 1(a) of the CCR for further description.*

*End of task*

# Market & Competitive Analysis

## Task 9-5: ID & Geocode Site/Demographics

### Objective

Determine whether a proposed or existing use at a site will meet the objectives of the owner, developer, investor, or lessee by way of a standard and formal geography comparison.

### Rationale

The trade area of the subject site needs to be further identified by a simple radius (1-2-3 mile rings) as well as drive time (5 and 10-minute) approach. Benchmark Demographics compare the functional geographies associated with the site (1, 2, and 3-mile rings, plus 5- and 10-minute drive time) with the formal geographies; county, MSA, state, and national. STDB/BA provides a dynamic approach to market analysis by beginning at the 30,000' level and drilling down to the Region, Market, Submarket, and ultimately the retail trade area of the subject property and/or use.

### Resources

Retail Case Task 5_Benchmark Dem Profile Report

### Steps

1. Use STDB/BA

2. Enter location address

3. Define Areas using 1-2-3 mile radius

4. Same Area use 5 & 10-minute drive time

5. Reports tab

6. Shared reports

7. Select Benchmark Demographic Profile Report

8. Add sites (geography sites) - county, zip code, state, U.S. to expand report results

9. Run report

10. Note your observations about the demographics and lifestyle information of the trade area.

Location address: 6100 Eldorado Pkwy, McKinney, Texas, 75070

## Note Your Findings

*Note: Example answers as of 12/12/19 data*

1. Demographics in the 5 minute drive-time and 2-mile trade area?

   a. Median Household Income
      *$103,676/$105,071*

   b. Total population
      *46,453/67,513*

   c. Median Age
      *34.5/34.8*

   d. Average Household Income
      *$121,271/$126,160*

   e. Drank beer or ale in last 6 months
      *15,015/22,339*

2. What is the population growth rate?

   5 minutes

      *2.54%*

   2 miles

      *2.58%*

*End of task*

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# Task 9-6: Supply/Demand Gap Analysis

## Objective

Determine consumer purchasing power in the designated geographic area to estimate the disposable purchasing power and to show the allocation of the disposable purchasing power to retail goods and services.

## Rationale

Key to the retail demand segmentation are consumer income, population and household numbers, and consumer expenditures for certain retail products and services categories. The retail demand segment is composed of population, per capita income, and consumer expenditures. The "Retail MarketPlace Profile report provides supply/demand by retail category in a defined market area.

## Resources

▪ STDB/BA

▪ Retail Task 9-6_Marketplace Profile Report (static report as backup)

## Steps

1. In STDB

2. Revisit the initial map for location

3. Adjust to use a "5-minute drive time"

4. Click Run Reports from the pop-up options box

5. Run Retail MarketPlace Profile Report (saved in project folder automatically)

6. Identify areas of opportunity and note your observations about the demand for Empire Spirits products & services within the trade area.

## Note Your Findings

*Note: Example Answers as of 12/12/19 data*

1. Is there current demand for the product type in the trade area?

*Yes, the Retail Marketplace Profile report shows a retail demand/gap of $6.450m in NAICS code 4453. The positive 100% represents 'leakage' of retail opportunity outside the trade area.*

*End of task*

## Task 9-7: Traffic Counts

### Objective

Define the trade area for current as well as future transportation needs at the subject site.

### Rationale

The best resource of current traffic counts is the state or county jurisdiction. The analyst should seek to identify the primary and secondary traffic counts for their particular geography using the most accurate resource available.

### Resources

- https://www.mckinneytexas.org/309/Traffic-Counts

- https://www.nctcog.org/trans/data/info/traffic-count-information-systems/traffic-counts

- Retail Task 9-7 Traffic Counts with Site (Google Earth PDF)

### Steps

Use any of the resources above to find the traffic counts on both Eldorado Parkway and S. Ridge Road, the intersection of the subject site.

### Note Your Findings

*Note: Example Answers as of 12/12/19 data*

1. Eldorado Parkway traffic counts:

   *23,262 vpd*

2. S. Ridge Road traffic counts:

   *14,776 vpd*

*End of task*

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# Task 9-8: Competition in Trade Area

## Objective

Determine if there is a demand for the proposed use within the trade area by identifying competitors within the subject trade area (5-minute drive time).

## Rationale

Using available tools and various defined metrics, compares the subject trade area and site to the trade areas of the other Empire Spirit store locations within the Dallas market. STDB/BA provides several search tools, comparison reports, and custom comparison reports to further explore, analyze, and understand how the subject trade area/site compares to other existing Empire Spirit store locations/trade areas for the selected retail use.

## Resources

▪ STDB/BA

▪ Static Screen captures of existing Empire Spirits mapped locations

## Steps

1. Use Business and Facility Search and search for "liquor" to determine if there are any competitors currently in the subject trade area.

    a. Use 5- minute drive time map

    b. Maps > create maps >Business & Facility Search

    c. Type in liquor

    d. Identify any competitive liquor stores within the 5-minute drive time

2. Excel Spreadsheet of existing Empire Spirit locations

3. Return to BA 5-minute drive time map.

    a. Use provided list of the existing Empire Spirit locations.

    b. Import data – uploading a file

        i. address and zip

        ii. do 5-minute drive time for each point (layer takes time to build)

4. Reports

    a. Comparison Reports

        i. Select our location, other 5-minute drive time locations

ii. Make our site the benchmark site

iii. Compare the proposed subject site to the existing Empire Spirits store locations provided

## Note Your Findings

*Note: Example Answers as of 12/12/19 data*

1. Are there any existing competitor liquor stores in the 5-minute drive time trade area?

   *There are no competitive liquor stores within the 5-minute drive time.*

2. How does the subject trade area overall compare to Empire store spirits existing stores' trade areas?

   *Review the mapped locations of existing Empire Spirit locations and proximity to the subject trade area. Using the Comparison Report to relate the following: Total Population differential, Population Annual Growth Rate comparison, Median HH Income, and Alcoholic Beverages at Home (dollars spent). NOTE: The colors reflect the 'percentage difference from the benchmark' as shown on the Benchmark Legend tab.*

   *End of task*

# Task 9-9: Suitability Analysis

## Objective

Conduct a Suitability Analysis to further explore, analyze how the subject site and trade area compare to any competing sites/trade areas for the selected retail location.

## Rationale

STDB/Business Analyst Suitability Analysis examines how the subject site and trade area compares to our competitive site and trade area within the Dallas market where Empire Spirits is being pursued as a prospective tenant.

## Resources

- STDB/Business - Analyst Suitability Analysis (Dynamic)

- Retail Task 9-9_Liquor Sites for Suitability Analysis

- Static Screen captures of competitive sites mapped locations

## Steps

1. Use competitive site Excel spreadsheet and data

2. Start with clean map

3. Import data

   a. add criteria:

      i. Median HH Income, (population) Positive Growth, Lease Rate, Space Available, and Building Quality (can change weighting, but for this case left as is)

4. Compare the proposed Empire Spirit trade area/site to the competitive site locations provided.

## Note Your Findings

*Note: Example Answers as of 12/12/19 data*

1. What site changes occurs when you modify the lease rate?

   *Review the mapped locations of competitive sites/locations. Using the threshold bar, if the lease rate is changed to $25.00psf as the high end, the $27.50psf site is eliminated from the map.*

2. How does changing other site variables impact the proposed location?

   *The Suitability analysis provides an opportunity to compare sites by filtering attributes to provide a scoring based on ratings using ESRI data (population, income, etc.) or custom date imported for comparative purposes (square footage, building quality, etc.). This dynamic mapping feature is a valuable tool in providing positive, inverse and ideal outcomes for a particular site.*

*End of task*

# Task 9-10: Multi-area Benchmark/Tapestry Reports

## Objective

Identify lifestyle and habits information of the people living in a market area using available Tapestry Infographics.

## Rationale

Infographics provide a visual presentation that can communicate data quickly and clearly as well as interactive approach to analyze various data within the selected geography.

The analyst can enhance the understanding and comprehension of the trade area through a self-contained summary of what the reader needs or values by incorporating the Multi-Area Benchmark Report and Multi-Area Tapestry Reports.

Use tools available that allow the person performing the analysis to provide the key demographic information, as well as lifestyle and habits of the people living in the trade area, in one dynamic, interactive format.

## Resources

- Retail Task 9-10 Multi-Area Tapestry Infographic
- Retail Task 9-10_Retail Benchmark Infographic
- Retail Task 9-10 Benchmark Report Comparisons (static report)

## Steps

Using STDB/BA and the same 5-minute drive time, run the Multi-Area Benchmark and Multi-Area Tapestry Infographic at the geocoded subject site.

1. Infographics
   a. Shared infographics
      i. 102 Retail Case Study
      ii. Retail Benchmark Demographics

## Note Your Findings

*Note: Example Answers as of 12/12/19 data*

1. How does the subject trade area compare to the county? Answers may vary.
   *Trade area observations could include: Average HH size is larger, median age is lower, population, households, and families annual growth rate is higher, Median and Average HH income is much higher than the national average.*

2.  What is the dominant tapestry segment in the subject trade area?

    *Boomburgs make up the dominant tapestry segment*

3.  What are some of the key attributes of the dominant tapestry segment?
    *Married couples, median age is 34, $105,000 annual income, College Education.*

*End of task*

# Financial Analysis

## Task 9-11: Financial Analysis

### Objective

Draft a "best case scenario" for selected property using the provided property assumptions for financial analysis, combined with market analyses results.

### Assumptions

The Atlas owned specialty center consists of the following:

- Total Shopping Center GLA: 70,000 sf

- Anchor Tenants: Furniture & Home Goods Store (30,000 sf) and Pet Supply Store (20,000 sf)

- Small Shop Tenants: Dry Cleaner, Medical Office, Yoga Studio, Hair and Nail Salon, Sub Shop, and an Italian Restaurant

- Current Operating Expenses are estimated to be as follows:

    ◘ $4.00 psf for Common Area Maintenance
    ◘ $1.60 psf for Real Estate Taxes
    ◘ $0.40 psf for Insurance

- Trade Area Rents:  $24.00-$30.00 psf, NNN

- Trade Area Tenant Improvement Allowance: $20-$25 psf

- Empire Spirits Average Unit Volume (AUV): $10M per unit

- Percentage Rent Provisions:

    ◘ Artificial Breakpoint: $ amount to be agreed upon
    ◘ Natural Breakpoint: % established

### Resources

- Previous market analysis results

- Financial assumptions

- Letter of Intent (LOI) template (Word)

## Steps

Use the financial information provided to draft a Letter of Intent/Financial Proposal to present to Empire Spirits along with the market analysis results to support findings for the subject site. This can be as creative as necessary using any information contained in the case study or other resources to provide the "best case scenario" in attracting Empire Spirits to 6100 Eldorado Parkway.

## Note Your Findings

*Letter of Intent will be part of presentation.*

*End of task*

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# Task 9-12: Client Recommendation

## Objective

Aggregate your analyses findings into a brief presentation for your client demonstrating if the site is viable investment.

1. What is the collective outcome you have arrived at based on the analyses conducted?

   *Provided as part of the presentation to Empire Spirits.*

2. How does your analysis result address the customer's expectations and needs?

   *Provided as part of the presentation to Empire Spirits*

3. What is your client recommendation?

   *Answers will vary*

*End of task*