Market Analysis for Commercial Investment Real Estate

12

Case Study 4:
Residential Properties

In This Module

CCIM

Case Study 4:
Residential Properties

Case Study Goal

The goal of the residential case study is to apply the CCIM Strategic Analysis Model in identifying an apartment trade area for a developer among alternative locations to meet expected population and employment growth.

Case Study Objectives

- Develop a market analysis plan (**MAP**) of the steps and analytical tools to perform a market analysis to achieve the goals of the client.

- Identify number of basic employees to be employed by each corporation planning to locate in McKinney using results of completed Shift-Share Analysis.

- Search for permitted land use for multifamily development and select apartment trade area(s) which conform to urban living as defined by municipality's plan of development that allow apartment development.

- Determine the annual threshold income for a typical market rent for the selected district(s) for one- and two-bedroom apartment.

- Identify the qualifying trade area districts which allow apartment development through comparison of their lifestyle that meet client's parameters.

- Conduct a comparative analysis to determine which three or four of the selected districts that meet the client's parameters for future apartment growth.

- Identify pipeline data through Reis Report, New Construction Report (Excel) average rent trends, target area vacancy rate, absorption, operating cost, apartment supply and estimated demand and demand for the study area.

- Develop an estimate of the development value by using a back-door estimate.

- Perform a Highest and Best Use Analysis using the target yield to estimate residual land value that the proposed apartment development can support.

- Create an **PPT** presentation supported by analyses results that determines whether there is demand for apartments in the study area and meets given client criteria.

Case Study 4: Residential Properties

Client Background

Your team has been hired by an east coast apartment developer, C. Campbell Developers, LLC. The client is interested in expanding into growing apartment markets like Dallas-Fort Worth. The client favors existing apartment trade areas in growing markets that allow apartment development.

The client had learned that two corporations just announced new office development in McKinney, Texas. One being an international finance & insurance company which announced that they will be creating 5,000 new jobs and a Unicorn Tech company announced they will be creating 3,000 new jobs in McKinney.

In addition, a recent news article ranked McKinney, Texas as the sixth fastest growing city in the United States.

Client Situation

Your client desires a residential trade area that can meet the expected growing population and employment growth. The client's preliminary research is focused on the McKinney 2040 Comprehensive Plan for Districts that allow development of apartments. She used the Preferred Scenario map in the Comprehensive Plan to target some districts. She identified potential districts that are west of U.S. Route 75 and along and north of US Route 380.

Your assistance is needed to conduct an analysis to advise the client on which district(s) can support sustainable urban living (apartments) in the targeted area with linkages to retail, medical services, schools, parks, public transportation, etc.

Determine through a market analysis the demand for new apartments within the District(s) identified supports the client's plan of developing 250 units with 125 one-bedroom and 125 two-bedroom. The client when analyzing potential locations looks at and compares average disposable income, median disposable income, education those with bachelor's degrees, renter occupied housing units and rented dwelling units. She also seeks a map showing the locations of new market rate apartment growth patterns. In addition, the client weighs heavily their decision on lifestyle and its impact on those who rent.

The client needs this information for an upcoming board meeting.

Client Assumptions

- The client can obtain a 20-year mortgage at 5.0 percent with monthly payments at a 1.30 DCR.

- The Client has an 8 percent target yield.

- Projects of this type have an estimated economic life of about 60 years.

Scope of Analysis

In this residential case study, CCIM Strategic Analysis model components will be applied with the exception of site specific location. You will identify an apartment trade area within a Dallas sub-market of McKinney, Texas and provide market analysis results to delineate an apartment trade area based on the McKinney 2040 Comprehensive Plan in support of current and future apartment demand. Your market analysis should include use of the McKinney 2040 Comprehensive Plan, demographic research using STDB, third party market data from provided REIS Reports, financial analysis using current market data.

Market Analysis Plan (MAP)

Task 12-1: Your MAP

Objective

Develop a market analysis plan (MAP) of the steps and analytical tools to perform a market analysis to achieve the goals of the client.

Rationale

The market analysis plan provides a outlined guide of tasks and tools to organize and guide through the market analysis.

Resources

- Res Task 1 MAP Tools Matrix template

Steps

1. At your table, collaborate to create a list steps determined needed to perform your market analysis.

2. Next to each step list the analytical tools, resources you plan to use to perform your analysis.

3. Be prepared to share your **MAP** with class.

4. Adjust your **MAP** from class debrief.

End of task

Task 12-2: EBA and Shift-Share Analysis

Objective

Identify number of basic employees that will be employed by each new corporation planning to locate in McKinney using results of completed Shift-Share Analysis.

Rationale

Determining the additional basic employees is to determine the growth of the employment sector(s) and to estimate the demand for real estate.

Resources

- Results of Economic Analysis for McKinney, Texas (based on shift-share for Collin County, TX)

Steps

1. Identify the employment sector the two incoming companies represent.

2. Determine basic employees per employment sector.

3. Identify the estimated population growth these two companies may add in McKinney.

4. Identify the percentage and number of apartment households that could be in McKinney.

Note Your Findings

1. What percentage of the 5,000 finance employees and what percentage of the 3,000 technical employees are basic employees?

   Finance & Insurance

   _____

   Technical

   _____

End of task

Political & Legal Analysis

Task 12-3: Land Use

Objective

Search for land use that encourage multifamily development and select apartment trade area(s) which conform to urban living (apartments) as defined by municipality's plan of development.

Rationale

Confirming land use allows multifamily/apartments is critical to moving forward with analysis, in this case a multifamily development.

Resources

- McKinney 2040 Comprehensive Plan (PDF- preferred districts bookmarked) https://www.mckinneytexas.org/292/Comprehensive-Plan

- Preferred Scenario Map (PDF)

- mckinney-districts (zip file)

Steps

1. Review Preferred Scenario Map, to confirm allowed use of urban living (multifamily/apartments).

a. Preferred area is West of US 75 and North of US 380.

2. Import mckinney-districts zip file into STDB/BA to create interactive Districts Map

Note Your Findings

1. What are the districts within the identified study area?

   _____

   _____

   _____

2. Of the districts in the identified study area, which districts allow urban living?

   _____

   _____

   _____

End of task

Financial Analysis-Rent Setting

Task 12-4: Threshold Income

Objective

Determine the annual threshold income for a typical market rent for the selected district(s) for one- and two-bedroom apartments. Compare estimated rents to HUD data for rent sensitivity.

Rationale

Determine if the target area can support the proposed project.

Resources

- HUD Fair Market Rents
  https://www.huduser.gov/portal/datasets/fmr.html#2019

- REIS ReportApartments Plano Allen McKinney (Excel)

- STDB/ BA Market Research

Steps

1. Estimate the average or median rent (review HUD and Reis as sensitivity reference for market rents for 1- and 2-bedroom apartments) for McKinney ZIP 75070 (Rents, TX, Collin County, 75070)

2. Use the REIS ReportApartments Plano Allen McKinney (Excel) obtain market rate rent data, vacancy, and operating expenses.

   a. New Construction Tab (Select all McKinney rows copy and paste into new Excel workbook)

   b. On new Excel – delete columns not needed. Keep: street address, city, add column for state

   c. Delete any subsidized housing rows

   d. Save file for import to STDB/BA

3. Determining threshold income (refer to residential module): noting median income, less taxes, is disposable income.

   a. Gross up base rent to estimate threshold income.

   b. Add expenses, annualize, gross up by percent spent on housing, gross up by after tax percentage to estimate annual threshold income (for Excel workbook input).

4. Compare threshold income to study area income.

Note Your Findings

1. Compare calculated threshold market rate rents within market rents to

   REIS Reports rents the subject area?

   _____

   _____

   _____

2. How does market rent from Reis reports compare to HUD 2019

   affordable rents for the McKinney market? Is it a valid comparison?_

   _____

   _____

   _____

3. Will the targeted threshold income support one and two-bedroom rental

   units in the study area and why?

   _____

   _____

   _____

End of task

Location Analysis

Task 12-5: Study Area (Districts)

Objective

Identify the qualifying trade area districts which allow apartment development through comparison of their lifestyle.

Rationale

Identifying the lifestyle provides valuable insight to the economic activity in target market area(s).

Resources

▪ Previously created District Maps

▪ REIS ReportApartments Plano Allen McKinney (Excel) Internet: definition of walking and transit-oriented communities

▪ Internet: walkscore.com

Steps

1. Review McKinney Preferred Scenario Districts

2. In STDB/BA reopen the interactive District map

3. Click the 5 Districts to add to comparisons report, add data:

   a. Average disposable income

   b. Median disposable income

   c. Education - bachelor degrees

   d. Renter occupied housing

   e. Rented dwellings

4. Using same Map click District to now look at lifestyles

   a. Click Reports in popup options box, select Tapestry Segmentation Report, run report for each District

5. Internet search: find definitions for walking and transit-oriented communities.

6. Internet search: Walk Score rating for McKinney

Note Your Findings

1. Which districts in the client's study area have Urban Living (UL) as a preferred development Districts?

   _____

   _____

2. In the Districts identified for apartments, how many prominent lifestyles are there?

   _____

   _____

3. What percent of the identified lifestyle(s) rent and what is the median age and income?

   _____

   _____

4. How do the identified lifestyles impact rental apartment demand?

   _____

   _____

5. Do any of the identified district(s) meet the definition of a walking community and/or transit-oriented community? Why?

   _____

   _____

End of task

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Market Analysis

Task 12-6: Pipeline Data

Objective

Identify pipeline data through Reis Report, New Construction Report (Excel) for rent trends, vacancy rate, absorption, operating cost, apartment supply, estimated demand for the study area.

Rationale

Understand market dynamics related to apartment rentals for McKinney.

Resources

- REIS Report: REIS Report Apartments Plano Allen McKinney (New Construction tab)
- STDB/BA open interactive McKinney District Map (Task 3)

Steps

1. Use Reis Report to locate new pipeline market rate construction data in Excel format for Plano/Allen/McKinney (New Construction Tab).

   a. Sort city column alphabetically

   b. select McKinney rows to copy and paste into new Excel file

   c. delete subsidized housing row

   d. add headings for address, town, state, save file

2. Use McKinney Districts Map (from Task 3), add data, locate file, import, all new construction points should populate onto the map, Save

Note Your Findings

1. Which of the selected Districts have new apartment development?

   _____

   _____

2. Which District of those selected have new construction?

   _____

   _____

End of task

Task 12-7: Study Area Analysis

Objective

Conduct a comparative analysis to determine which of the selected districts is the best for the client's project.

Rationale

A comparative analysis can help to determine which of the districts best meet client's criteria.

Resources

- STDB/BA comparative analysis (in STDB maps)
- STDB/BA: McKinney District Map

Steps

1. Use McKinney District Map results from Tasks 5 and 7
2. Discuss Districts comparison results

Note Your Findings

1. Which Districts best meet the client's criteria for apartment development?

_____

_____

End of task

Financial Analysis, Project Value: Highest and Best Use (HABU)

Task 12-8: Estimate Project Value & Market Land Value

Objective

Perform a backdoor calculation to Estimate Project Value and Highest and Best Use (HABU) Analysis using the target yield to estimate land value the project can afford.

Rationale

Estimate Project Value to be utilized to estimate project land value via Highest and Best Use Analysis. It test sensitivity as to land value and determine if our estimated land value is within market parameters.

Resources

- Client Assumptions
- Module 1 - Highest and Best Use Analysis
- Financial_Threshold_Income Project Value_HABU (Excel)

Steps for Estimated Project Cost

1. Estimate GSI, Apply Market Vacancy, less operating expenses.

2. Apply DCR to estimate ADS, calculate loan PV then gross up by LTV to estimate project value.

Steps for HABU

3. Use estimated project value to amortize the project cost over its estimate economic life by target yield (back door project estimate of value)

4. Calculate the annual amortized payment.

5. Deduct annual amortized improvement payment from the gross NOI to achieve an NOI attributable to the land.

6. Capitalize the land residual NOI by the target yield (discount rate).

Note Your Findings

1. What is the calculated estimated land value?

   _____

   _____

End of task

Task 12-9: Client Recommendation

Objective

Create an PPT presentation supported by your analyses results that determines whether there is demand for apartments in the study area and meets given client criteria. Identify the best district

Rationale

Analyses results should provide supportable fact-based data/information derived from your market analysis to communicate recommendation to your client and their real estate committee.

Resources

- Results of completed analyses
- PowerPoint

Steps

Prepare a five-minute PowerPoint presentation which support your recommendation for the target district(s) to be deliver to the client's real estate committee.

Note Your Findings

1. What are your recommendation on market:

   ◘ Demand

   ◘ Absorption

   ◘ Rent levels for one & two-bedroom units in McKinney

   ◘ Median threshold income for the target District(s)

   ◘ Is there one district better than the other districts? Why?

2. Does the opportunity exist for a walking or transit-oriented community, with supporting linkages, employment node(s) and supporting lifestyle(s) for apartments? Why?

   _____

   _____

   _____

3. Will the selected district(s) support apartment development without being a walking or transit-oriented community?

   _____

   _____

   _____

End of task