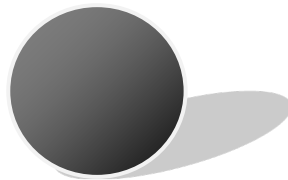


CI 102: Market Analysis for Commercial Investment Real Estate



Pre-Case Study: Economic Analysis

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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 (EBA) to determine the Economic Base Multiplier (EBM) and Population Employment Ratio (PER) 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.

NOTES

Economic Analysis

Task 1: Economic Base and Shift-Share Analyses



Objective

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

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

Site To Do Business (STDB) Webpage: www.stdb.com

Steps

Log into (www.stdb.com) and on the dashboard select **STDB Instant InSites** panel. The shift-share start page displays.

Select:

- **Radio button:** MSA
- **Area:** Type in Dallas; Select Dallas-Fort Worth-Arlington, Texas
- **Base Year:** Select oldest (2012, Q1)Current Year: Select most recent (2023, Q2)
- **Click:** Run Shift-Share Analysis

Note Your Findings

1. What is the selected current year EBM for Collin County, TX? (click Collin County on the map to display EBM popup)

5.66

2. On the tab: Regional Shift Chart, what are the top four High Sector Industry Categories with the largest positive Regional Shifts over the analysis period?

Trade, Transportation, and Utilities

Professional and Business Services

Financial Activities

Leisure and Hospitality

Education and Health Services

3. On the Data Table tab: After comparing the total National Growth and Industry Mix jobs to the Regional Shift jobs, what conclusions can you make about the overall competitiveness of the DFW metro area over the analysis period?

DFW has significant economic advantages that have created strong job growth

End of task



Task 2: Employment Trends and Market Cycle

Objective

Analyze the overall status U.S. commercial real estate industry local employment trends compared to the overall U.S., and the market cycle positions of the local office, industrial, retail, and apartment property sectors.

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 various property sectors 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

- Site To Do Business (STDB) webpage
- Mueller Market Cycle Report (CI 102 Case Study Resources webpage)
- BLS Economic Summary Dallas-Fort Worth (CI 102 Case Study Resources webpage)

Steps for using the tools

1. For question 1, log into (www.stdb.com) and on the dashboard select **CREPI™**.
2. For question 2 and 3, use the Employment Trend Analysis Excel workbook.
3. For question 4, use the Economic Trend Analysis Excel workbook.

Note Your Findings

1. What do recent trends and the current position of the composite Commercial Real Estate Performance Index (CREPI™) indicate about the current status of the overall U.S. commercial real estate economy?

Strengthening economic fundamentals over the near term but potential challenges to economic growth remain in effect.

- a. What is the current market cycle position of the DFW metro area employment?

Hypersupply

2. How does DFW's average 10-year employment growth compare to the U.S.?

It is growing twice as fast at 2.6% average for DFW versus 1.3% for the U.S.

3. How does the DFW economy compare with the U.S. economy over time?

The DFW economic cycles generally mirror the U.S. but DFW has grown faster.

Using the Dallas-Fort Worth Area Economic Summary from the CI 102 Case Study Resources Webpage

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

- a. Unemployment rate

3.4% unemployment rate for DFW versus 3.5% for the U.S.

- b. Prices paid by urban consumers

4.9% annual change for DFW versus 3.5% for the U.S.

- c. Average hourly wages

\$31.66 for DFW versus 31.48% for the U.S.

Steps for Using the Mueller Market Cycle Report from the CI 102 Case Study Resources Webpage

1. Select the property type page that matches the property type being analyzed.
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?

Point 16 - bottom of the recession phase

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

Point 12 - early hypersupply phase

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

Point 14 - entering the recession phase

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

Point 12 - top of the expansion phase

End of Task and End of Case