

Finding Hidden Potential

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West Swedesford Road in Berwyn, Pennsylvania isn't what it once was. A year ago, Linens 'N Things, Circuit City, Oscar Huber Furniture, and Charlie Brown's Restaurant were all among the occupants of this retail corridor. Now they are gone, and all that remain are the empty shells of stores that once drew throngs of customers.



These stores serve as a stark reminder of businesses that have passed on. But, just as old life makes way for new life in nature, old businesses can make way for new businesses in the marketplace.

The first sprouts to emerge from the remains of former retailers are restaurants. As casual dining and high-priced establishments such as Bennigan's, Steak and Ale, and Starbucks close restaurants, other restaurants with strong financials and expansion plans realize that they can convert these locations for at least 20% less than building a new

restaurant from scratch.

The critical question for these restaurant chains, which include Buffalo Wild Wings, Panera Bread, Burger King, and Chili's Grill & Bar is how much business can they expect from opening restaurants in these vacated sites. The only way to determine this is to conduct a marketability analysis.

A marketability analysis can be prepared for any type of real estate. It reveals the hidden potential of a site or building. For an office it tells you who wants to work here and why, how much office space do they need, and what other office space is currently available that fits their needs. For an industrial building it tells you how this property fits into the supply chain of manufacturers and distributors. For a multi-family building it tells you who lives here, who wants to move here, and what type of living space are they looking for. For retail space, the questions answered are who shops here, how much do they spend and on what do they spend it, and where are they spending this money now? A detailed analysis can reveal precisely what type of real estate and how many square feet are needed.

For a retail property, we'd want to establish the trade area. The trade area is the geographic area from which a retail facility draws most of its customers. It varies depending on the type of goods sold, the amount of local competition, and the population density of an area. A store selling apparel, furniture, or home furnishings in a lightly populated area with little local competition will generally have a larger trade area than a supermarket in a densely populated area with lots of competition.

The ideal means of finding the trade area for a store would be to map the address of every customer of the store over a period of years. Since this is usually not practical, particularly with new or proposed stores, the drive times to a property are used instead. The idea is that many people within a short drive time will become customers, as will some with a moderate drive time and a few with a long drive time.

Furthermore, many of those with moderate or long drive times might be lured away by other stores selling

similar goods. A market analysis might consider three drive time categories: less than five minutes, five to ten minutes, and ten to twenty minutes. The geographic areas corresponding to these drive times can be superimposed on a map and adjustments can be made for competing stores.

With these trade areas mapped out, the demographic and lifestyle characteristics of the people and households within these areas can be researched. Key considerations include the number and size of households, household incomes, and the age brackets of the residents. With this information, it is possible to estimate the amount of disposable income that is spent on each category of goods. Dividing the amount of money spent by the expected sales revenue per square foot provides the amount of retail space that the trade area can support.

A marketability analysis can have several applications. In addition to guiding the development of the property, it can be used in focusing the efforts of leasing agents, estimating the absorption of proposed space, and establishing the market value of the property for financing, legal matters, and a host of other uses.

The economies of the United States and the world currently have a mountain of idle and underused capital assets. It's time to put these assets back to work. One of the first steps in this process is a marketability analysis of all idle or underutilized commercial, industrial, multi-family, and institutional real estate. If you're responsible for dealing with these assets, it's time to consider a market analysis.