

SCIENTIFIC REAL ESTATE INVESTMENT

Douglas McKnight, CapStruc Advisors, LLC

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We've all seen them. The vacant gas station. The half-empty shopping center. The office building with weeds growing in the parking lot.

What if you could transform these properties into viable commercial businesses? What if you could stuff them with flourishing tenants? What if you could know ahead of time exactly how profitable an investment in these properties could be?

WELCOME TO THE WORLD OF PSYCHOGRAPHICS.

You're probably aware that businesses are constantly gathering information about their customers. What you might not know is that some of the buyers of this information have no interest in directly soliciting the businesses' customers. Instead, they remove the names and other directly identifying elements and add the rest of the information to a database. This process yields a very detailed profile of the customers. It provides a complete picture of the personality, values, opinions, attitudes, interests, and lifestyles of an area's residents.

Armed with this information, we can determine how much a customer spends on any particular good or service every year. When this is paired with geolocation data, we can discover how much is spent within various drive times of any particular location. When this amount is divided by sales per square foot, we discover the demand for any particular product in terms of square feet of building area.

The next question is how much space is already serving these customers. This involves searching for facilities that offer competing products and products that can be used as substitutes. Subtracting the existing building area of these properties from the total demand for space gives us the amount of unsatisfied demand. These consumers often have to travel outside of the trade area in order to make their purchases. They will be immediately interested in any opportunity to make these purchases closer to home.

Furthermore, the new space can be specifically designed to cater to the desires of specific customers. The generations X urban consumers are interested in different products than the cozy country living customers, even though both might have similar demographics. The redevelopment or renovation of a property can be targeted to the predominate lifestyle in the area.

APPLICATIONS

We used this process to evaluate the excess land of a steel company in South Coatesville, Pa. The analysis indicated that there was a severe shortage of supermarket space. The closest supermarket was two municipalities away in Thorndale. We also found less severe shortages of various other retail uses. We suggested a neighborhood shopping center anchored by a supermarket, with specific building areas for specific uses making up the remaining space in the center. The county subsequently developed the property as an emergency services training center, but their rent was based on the property's highest and best use of optimized retail development.

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The process can be just as useful for existing buildings. A fitness center in Lancaster County, Pa. was in deep financial trouble and was considering bankruptcy. With the aid of a psychographic analysis, we were able to determine how many people participated in each fitness activity. The evaluation included 5-minute and 15-minute drive times. The results of this analysis are presented in table 1.

TABLE 1: PARTICIPANTS IN SPORTS & LEISURE ACTIVITIES

	5 Minutes	15 Minutes
Aerobics	345	3,292
Basketball	383	3,107
Jogging/running	395	3,358
Pilates	155	1,255
Swimming	1,006	8,603
Weight lifting	484	4,110
	2,373	20,367

This study revealed that the facility's indoor pool was a major asset. It provided a solid basis for the YMCA to purchase the property and allowed the former property owner to avoid bankruptcy.

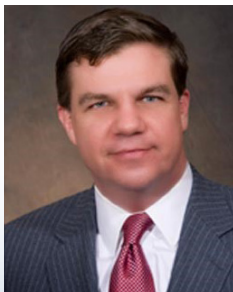
Although the employment of psychographics is most common for retail properties, other property types can also benefit. The owners of the U.S. Patent and Trademark office in Alexandria, Va. needed to replace a construction loan with a permanent one. A psychographic analysis revealed that Alexandria is one of the most popular locations for professional associations in the United States, second only to Chicago. Combining this with interviews with local office tenants, we were able to discover the demand for each type of office worker in this market.

The International Facilities Management Association publishes their Space and Project Management report every two years, which includes tables on office type by worker, office size by worker, and office size by industry. By integrating this data with the psychographic information, we were able to create an accurate estimate of current and near future demand for office space. This included, not just the amount of office space demanded, but also the specific type.

We have also successfully used psychographics in the analysis of multifamily and hotel properties. Psychographic analysis is a powerful tool for the analysis of commercial real estate. It is a far more scientific method than the seat-of-the-pants method that developers and investors have used in the past, and that many still do. It can, and often does, make the difference between a booming investment and a flop.

Douglas McKnight is a commercial real estate appraiser and writer with over 26 years of experience appraising all types of commercial and industrial properties.

If you are involved with a property that you think might benefit from a psychographic analysis, please contact:



Douglas McKnight
 CapStruc Advisors LLC

888.910.7771
doug.mcknight@CapStruc.com

Appraisal & Consulting: www.CapStruc.com
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