THE OBJECTIVES OF MARKET RESEARCH

by Aaron N. Gruen

The Chinese military philosopher and strategist Sun Pin, in his fourth-century B.C.E. text, *The Art of Warfare*, concludes: "In the business of war, there is no invariable strategic advantage (or shih) that can be relied upon at all times." This principal applies especially well to the dynamic business of real estate. Understanding how the future will be different from the past is critical to evaluating demands and executing advantageous investment and development strategies targeted to capture these demands.

Understanding Objectives of Development and Investment

The business of real estate involves obtaining and retaining renters (or buyers) at a profitable price. To achieve this objective, a developer/investor must satisfy space users' unique, unmet or underserved product and locational requirements, when supply alternatives are limited. Identifying and capitalizing on shifting preferences allows the developer/investor to compete on factors other than price. To do so typically requires providing a product that reduces the other costs or enhances the sales of the tenants or buyers.

Strategies for Development and Investment

Examples of adapting development and investment strategies to changing demands include: warehouses built to handle the flow of goods; low-rise, flexible office space, allowing tenants their own identity and parking and entrances in suburban business parks with abundant skilled labor (instead of signature, high-rise office buildings in urban CBDS); or conversion of obsolete urban industrial space into residential loft or live/work space. In the latter case, if the original structure was designed with ample floor load capacities, high ceilings and flexible column spacing, this may facilitate the conversion of the building from one use to another as the result of lifestyle, cultural and technological changes that outdate the original intended use. While the distribution center and office space examples involve reducing the cost of locational or spatial inefficiencies, the loft space example relates to a response to a consumer segment preference (typically urban, educated, smaller-sized households without children) for a more exciting and interesting lifestyle, or location more convenient to work.

Targeted Market Research- Key to Development and Investment

The risk of competing primarily on price is minimized by anticipating demand shifts and conceiving of comparative advantages based on market research. Market research facilitates project positioning and marketing tactics by providing information and insights on the following key factors:

1. Potential unfilled or underserved market niches consistent with a developer's ability to serve them;

2. An understanding of the prospective users' characteristics, motivations and preferences;

3. The proportion of the relevant market the prospective users comprise;

4. An identification and evaluation of the relevant geographic and product supply competition that meet the needs of the identified niche prospective users;

5. Demand-enhancing product and service options to differentiate the project from supply competition;

6. Likely penetration rates into the prospective market niche as a function of total supply;

7. Estimates of obtainable rents, product space absorption and development phasing; and

8. An understanding of the mind-set of citizens and local government staff and officials who will influence project entitlement.

Value-Added Results

Market research facilitates formulation of locational, product and marketing development strategies that effectively respond to underlying demographic, economic, technological and social trends. Analyzing these trends to identify consumers' shifting locational and spatial requirements provides opportunities for profitable investment and development.

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