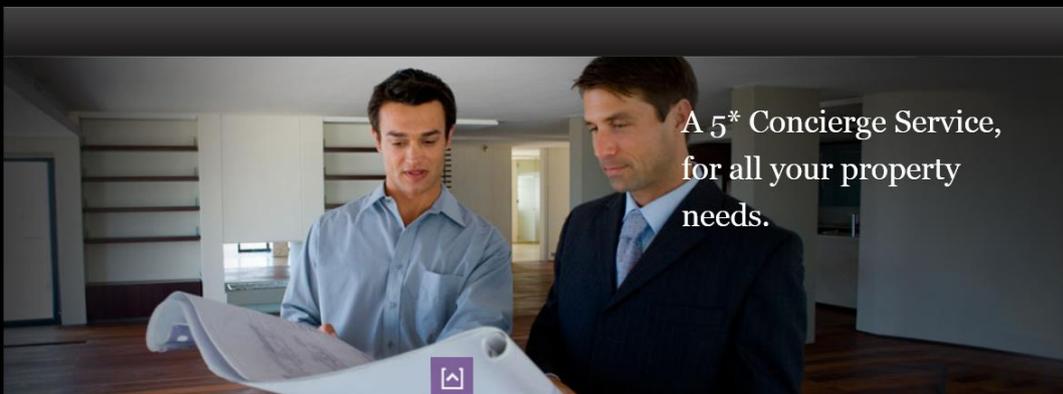




Property Specialists

Sales | Lettings | Design | Build

Market Research Key Aspects



A 5* Concierge Service,
for all your property
needs.

As At
06 October 2013

Author
D Winsper

Key Aspects Of Market Research For Property Development

1. As per '**Contemporary Property Development**' (Second Edition 2008), written by **Dr T Havard, 2002**, some key aspects for market research are highlighted in Chapter Two, the salient points are listed below. In addition, conducting market research, whilst required, is time consuming and costly and therefore should be conducted in two stages, that of;
 - a. **Preliminary / Initial** – A quick, rough and ready estimate of the proposed / existing 'Built Asset', to establish financial viability and worth, culminating in a brief, initial written report.
 - b. **Concise / Confirmatory** – A detailed appreciation of the proposed / existing 'Built Asset, building on the 'Preliminary' assessment, with written confirmation contained within a detailed report, involving all facets of the Development Team.
2. Whilst these research points, as below, remain extant in the sector, they should be weighted against the financial back drop of when they were written by the author; On a rising and forgiving market, prior to the economic and sector downturns and subsequent stagnation beyond 2008.
3. The following aspects, in bold, should be considered and my interpretation then follows;
 - a. **Supply / Demand** – Supply and demand has been dealt with in detail in SUM200-Economics of the Built Environment and various models are available, 'Keough' (1994), 'Dipasquale & Wheaton (1996) for example. Is supply and demand intrinsically linked? Or does world demand remain extant (BRIC Countries investing in the UK's 'Built Assets') and thus supply is fiscally driven, not demand driven. Corporate profit drives construction and as a SME should the individual Property Developer / Development Team, look to capitalise on the large corporation's (Barratt / Taylor Woodrow etc) construction wave. i.e. The centre of Woking (UK) has been developed over the last 5 years and owning properties built c1970/80, within 200 metres of said modern developments, both the sale and rental prices of these properties have ballooned, to match these modern apartments. These modern new builds are artificially high in sales price, to fund the corporate profit, which then emanates to the rental sector, as B2L mortgages must return a certain rental percentage. In addition, demand is fed by employment and wage increases, thus more disposable income. If supply reflected demand, then the majority of new builds would be starter homes, which sadly is not the case, within Surrey.

Demand is insatiable, if 'The Price is Right'.
 - b. **Sector** – It should be established early in the research which sector the 'Built Asset' is suited to, that of Residential, Commercial, etc and overarched by whether the proposal is for Private or Public gain. This is achieved through the investigation of every financial modelling, i.e. irrespective of current land usage, could a change of use reap more reward, caveated with the ensuing planning issues that may arise.
 - c. **Occupier** – Is the development for Public or Private use? What do the demographics of the area point too. Residential developments occupied by 'White Collar' or 'Blue Collar' workers ?
 - d. **Investors** – The project can be funded in a majority of ways, that of; Debit Finance, Equity Finance, Joint Venture, Project Financing, Forward Sale, Grants and Family Loans, all come with advantages and disadvantages and one would never recommend a Family Loan.
 - e. **Economic Base** – Does the demographics point to an affluent buyer and thus the unit price will reflect this. Is the street scene highbrow or lowbrow and hence should be reflected in the proposed development. i.e. Standard fittings or a luxurious feel.
 - f. **Planning** – Access to British Planning Laws remain effortless (Planning Portals / Town & Country's Planning Act etc), however their interpretation and application by the various different boroughs,

may not be consistent and as such can lead to frustrations. For a successful development, the three sub sets of all 'Built Environment' Departments that of Planning, Building Control and Enforcement must be courted to achieve the desired affect / outcome.

- g. **Site Analysis** – What is the best use for the 'Built Asset'? The legal definition that of; the land which it is on, projecting downwards to the earth's core (Less certain mineral rights), the built form contained within the site and the space above, less over flight rights. Should the Unit be split, rebuilt, refurbished, demolished, change of use status applied for, all for the best financial gain.
- h. **Physical Form** – The properties physical form, if contained within similar 'Built Assets', is hard to change externally – (Building Lines, Curtilage etc). Great effort is required for external changes via planning. Permitted Development (PD) could be a solution, in conjunction with the UK Governments proposed relaxation of SOME planning laws, subject to ratification. This highlights Redevelopment v Refurbishment, as both could have financial legs.
- i. **Historic Issues** – Historic land use may aid Planning, if for example docklands flats can produce a better return by reverting back to industrial units. Further, history may produce SSI sites etc and should be avoided. It is incumbent on the developer, if historic artefacts are found, to inform National Heritage and an archaeological survey must be undertaken, holding up any development at a financial and time consuming cost.
- j. **Population Trends** – The population or work force in a given area will increase in line with investment, employment and opportunity. On an upward trend, unit prices are stable and can increase, however on a downward exodus, unit prices will collapse. i.e. Mining Towns / Industrial wastelands. Statistics for population trends are easily available, through government websites.
- k. **Social Characteristics** – Socio-Economic characteristics will always exist and must be established at the micro level, to establish what development is suitable and likely to fit with the 'Street Scene'.
- l. **Employment** – Local employment trends may be at odds with national employment figures and figures should be ascertained for both. High employment levels leads to higher income streams and thus an area can be deemed ripe for developers. This can also be linked to any new employment streams coming online within the area, such as new offices / factories etc being built. At the lower end of the financial scale, it can bolster the lettings market.
- m. **Catchments** – Catchment Areas in relation to good schools, doctors surgeries etc can increase the finished unit resale price (10%+), and comparable properties just outside these catchment areas will have less of an appeal.
- n. **Trade Routes** – Is the unit on an established trade route or possibly unauthorised trade route and hence HGV's trundle past at an alarming rate. This will lower residential unit price and becomes a psychological barrier. However, houses close to, but not in ear shot off Major Trunk Roads / Motorways MAY benefit from improved commute times. The reverse is true in commercial developments.
- o. **Income Streams** – Income streams within the geographical area will dictate product, style and finishes, but must be tempered with commute times (Average UK Commute 1 Hour), as a false market may appear on paper, but reality may dictate unit value increases towards the suburbs.
- p. **Transport Hubs** – Mainline, one stop, Train Stations, such as Woking Train Station, elevate unit prices, as their journey time is often quicker than stations closer to the capital or the centre of commerce. Noteworthy is the converse effect when applied to Air Hubs and flight paths i.e. Units in Hounslow, under the Heathrow flight path. Thus Noise Pollution becomes an additional factor.
- q. **Physical / Psychological Barriers** – Physical barriers may be encountered such as restricted sites / Tree Preservation orders etc, which may delay the project and extend the time frame, but are

easily overcome. However, Psychological Barriers are harder to orchestrate, examples of which are complaints from Parish Councils / action groups visa vie overdevelopment, the intangible barriers of Stamp Duty – It is hard to push a 'Built Asset' passed £250,000 (UK Specific) and thus £260K / £270K unit values are often reduced in sale, to counter this barrier, as with £500K properties.

- r. **Proposed Developments** – Within the vicinity of the proposed development, is their other developments that may influence unit price and thus return, in conjunction with 3a above. Public developments – Leisure Centres etc MAY indicate prosperity or area rejuvenation, however this is overarched by how public funds are utilised / distributed.
- s. **Proposed Investments** – Has the area been in receipt of / or earmarked for Private / Public investment, this will boost unit sale price. Conversely, is there no investment earmarked and through the Local Planning Framework (LPF) is the area being overlooked, thus why?
- t. **Time** – Time costs money and as such timescales are important and should involve economies of effort and scale. Can any development be achieved in an elongated time scale or is the objective 'Land Banking'.
- u. **Space** – Is the space being utilised to achieve the greatest financial return. See 3b above, i.e. Residential v Commercial. Further, can one unit be split further or realigned / rebuilt to allow more units to be contained within the same space.
- v. **Costs** – A complete investment appraisal should be conducted, in that £X invested in market conditions (FTSE / ISA etc) over the equivalent point of time will produce £Y, over time. Does the property development support a better return, in that £X invested into the 'Built Asset' should return a rate better than £Y. This should include such factors as; Risk, Period of Commitment, Return v Inflation, Real Reward, Net Terminal value (NTV) relating to Net Present Value (NPV) leading to an Interest Rate of Return (IRR).
- w. **Sustainability / Environment** – As demonstrated in SUM304 Sustainable Development, various grants exist to aid the development and clarification can be achieved from Borough and district councils (Within UK). An example of such, at the lower level, is the very low price of loft / roof insulation. At the higher level, Grants are available for Photovoltaic Cells etc. This will also impact on waste disposal and developments should aim off to recycle and not engage in 'Cradle to Grave' processes.
- x. **Contamination** – Soil samples coupled with site history should be analysed for possible and actual contamination, this also includes the structure of the 'Built Asset'. For Example, the removal of certain types of Asbestos can become very expensive indeed and eat into any profits envisaged.

4. Overarching all of these factors is 'Influence'. This builds over time and is geographic, in relation to past developments / refurbishments and can overcome 'some' issues, i.e. Planning, Investment etc, that may be encountered by market research, but once achieved bears no guarantee.

[E Signed]

David M Winsper
1118646
Principal
The Winsper Group

david@winspergroup.com
www.winpergroup.com
www.davidwinsper.com