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REA 621
Real Estate market analysis

Lecture 2



Basics of Real estate market analysis

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lecture

02

Abstract



This lecture outlines in general terms how to approach a real estate market analysis. It describes the basic tasks to be done, discusses the importance of field observations, and identifies the types of information needed to reach supportable conclusions.



1. Describing the Regional or Metropolitan Setting
2. Defining the Market Area
3. Inspecting the Site
4. Demand Analysis
5. Supply Analysis
6. Reconciling Demand and Supply

Learning outcomes

By the end of the lecture, you will be able to:

1. **Explain the regional or metropolitan setting** and its impact on real estate markets.
2. **Identify and define the market area** for a real estate project.
3. **Inspect and evaluate a project site** based on its main physical and location characteristics.
4. **Understand and analyze market demand** for different types of real estate.
5. **Identify existing and future market supply** and competing projects.
6. **Compare demand and supply** to assess whether a real estate project is feasible.

A market study should cover key observations regarding the site and its surroundings, advantages and disadvantages of the location, demand indicators, and characteristics of the competition.

Why?

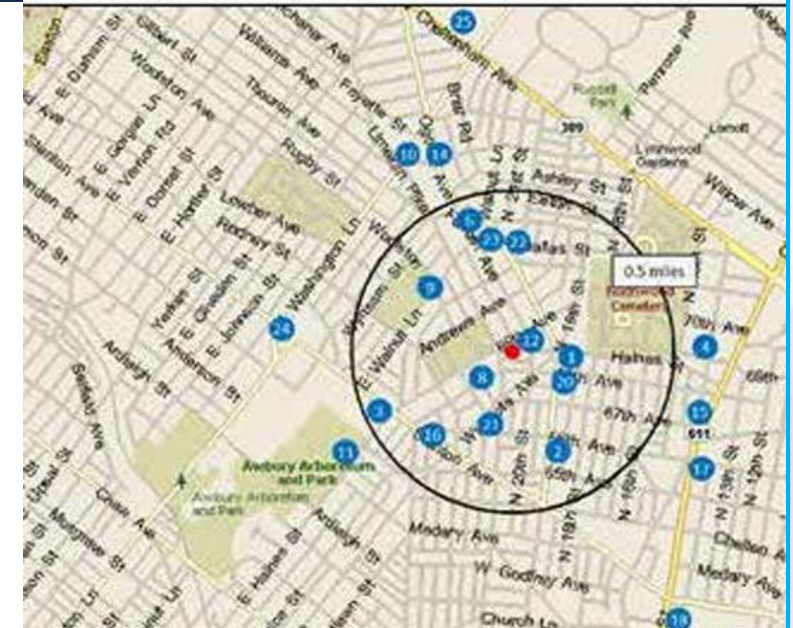
A hand-drawn word cloud centered around the phrase "market research". The words are in various colors and sizes, including "business", "data", "organization", "finance", "analyzing", "marketing", "graph", "scrutiny", "manager", "opposition", "savings", "planning", "growth", "research", and "leadership". A hand holding a pen is visible on the right side of the image, as if drawing the words.



1.Describing the Regional or Metropolitan Setting

The market analyst needs to set forth the regional economic context for a proposed development project

- Background on the location of the site within the metropolitan area (for example, the distance to downtown, the airport, and other regional draws)
- Overview of key demographic indicators for the metropolitan area, such as population and household growth, and median household income.



1.Describing the Regional or Metropolitan Setting

- A complete market study report should include a map that shows where the property sits within the metropolitan area or a major city. At a smaller scale, a map should show the boundaries of the primary and secondary market areas, location of the site, nearby interstate highways, and key arterial roads.
- For an industrial study, the map should show the location of (and distance to) airports, harbors, main highways, and freight rail service .



1.Describing the Regional or Metropolitan Setting

Example :Amenities and services near a proposed housing development

Transportation

- 1 SEPTA Bus Stop — Route 6
- 2 SEPTA Bus Stop —Routes 6 & K
- 3 SEPTA Bus Stop — Route L
- 4 SEPTA Bus Stop — Routes 16 and 22
- 5 SEPTA Olney Transportation Center

Recreation and Places of Worship

- 6 West Oak Lane Senior Center
- 7 Center in the Park — Senior Center
- 8 H&H Community Development Center
- 9 Simons Community Recreation Center
- 10 West Oak Lane Public Library
- 11 Awbury Arboretum
- 12 Mt. Airy Baptist Church

Social Services and Health Care

- 13 Albert Einstein Medical Center
- 14 Rite Aid — RediClinic
- 15 Wedge Recovery Center
- 16 Fresenius Medical Care-Olney

Shopping

- 17 CVS Pharmacy — North Broad Street
- 18 Aldi Grocery Store
- 19 PNC Bank
- 20 Mini-Market
- 21 8 Brothers Meat Market and Deli
- 22 Ogontz Avenue Retail Strip Center
- 23 Relish (Full-service Restaurant)
- 24 Citizen's Bank
- 25 Cheltenham Square

- For an office building, it will be important to show proximity to restaurants, hotels, and health clubs. The attractiveness of a downtown retail location is demonstrated by showing its proximity to cultural attractions and pedestrian traffic generators such as universities, courthouses, and hospitals.

1.Describing the Regional or Metropolitan Setting

- A discussion of employment trends, because job growth creates demand for real estate products.
- The data on employment should indicate how the number of jobs has grown over the preceding five to 10 years, with a discussion of industries that expanded or declined.
- A market study often includes a look at the characteristics of the area's largest employers.



1.Describing the Regional or Metropolitan Setting

- The regional or metropolitan overview should also include information on construction activity.
- For housing studies, the analyst should track building permit information for at least five years, preferably with separate tabulations for single-family and multifamily activity.



Metropolitan Setting — Jeddah Residential Real Estate Market

Location & Overview:

Jeddah is Saudi Arabia's second-largest city on the **Red Sea coast**, serving as a key economic and residential hub in the **Makkah Region**. It forms one of the main urban centers driving population growth and housing demand in the Kingdom.

Population & Demographics:

The city's metropolitan area includes over **3.7 million residents**, and housing demand remains strong as domestic migration and urbanization continue to expand residential needs.

Median Household Income:

In Saudi Arabia, median household disposable income is around **SAR 7,362 per month**, with Saudi households typically earning **higher at SAR 13,655 monthly**, reflecting consumer capacity relevant for housing affordability analysis in urban areas like Jeddah.

Metropolitan Setting — Jeddah Residential Real Estate Market

Employment Trends:

The national labor market shows *low unemployment* with the overall rate near **3 %**, supported by broad labor force participation and improved economic conditions under national transformation policies.

Strong employment stability helps sustain household demand for homeownership and rentals in major cities including Jeddah.

Residential Market Dynamics:

Jeddah's residential real estate market continues expanding, with units rising to about **891,000 stock by mid-2024** and ongoing new deliveries boosting supply. Sale prices and rents have shown *steady growth* with residential transactions increasing as demand remains firm.

Metropolitan Setting — Jeddah Residential Real Estate Market

Construction & Development Activity:

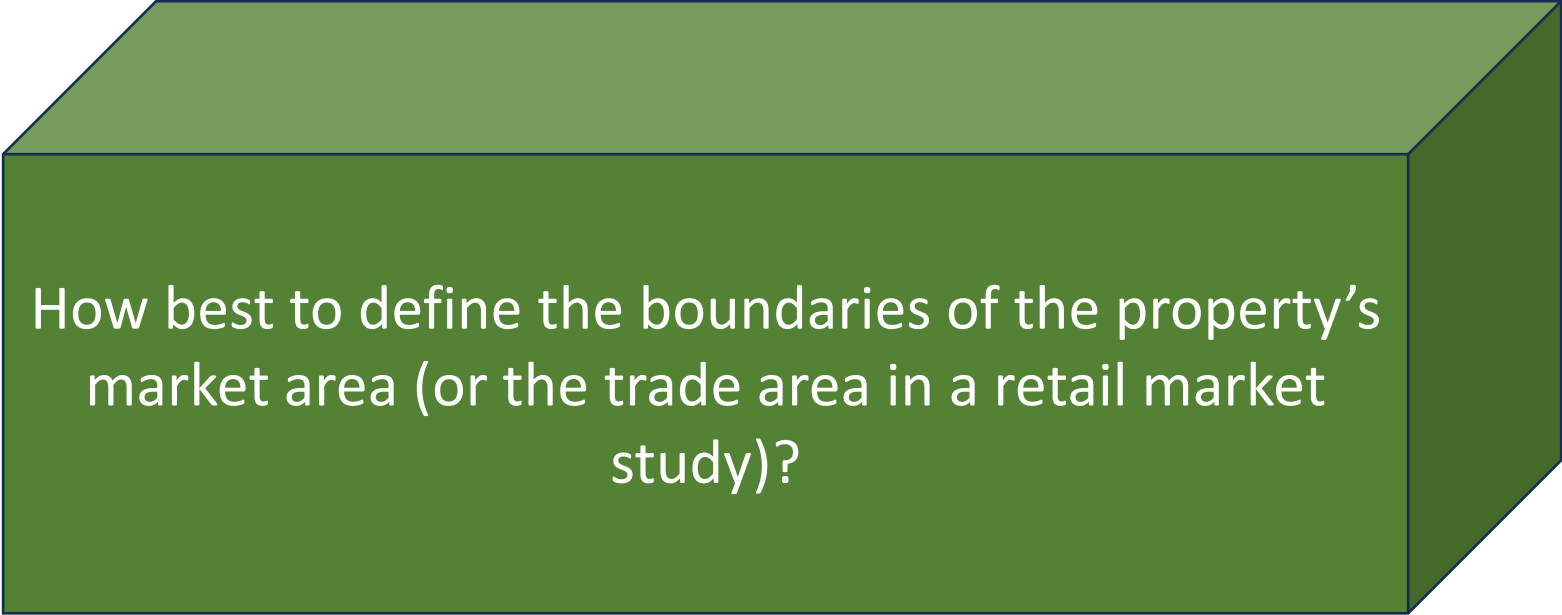
The broader Saudi construction market remains robust, with Jeddah's local construction sector valued at around **\$2.49 billion in 2024** and projected to reach **\$3.5 billion by 2029**, reflecting ongoing infrastructure and residential development momentum.

Large mixed-use and housing projects — including government-backed affordable housing schemes and master-planned communities — further support long-term residential supply growth.

Strategic Importance & Outlook:

Jeddah's role as a commercial, logistics, and population center — along with rising household incomes, solid employment trends, and active construction pipelines — underpin a **stable and growing residential real estate market** that attracts both local homebuyers and investors alike.

2. Defining the Market Area



How best to define the boundaries of the property's market area (or the trade area in a retail market study)?

- In reality, properties often have two market areas:
- One from which most potential tenants or buyers will be drawn
 - Another in which key competitors are located.

2. Defining the Market Area

Preliminary studies may define a market or trade area using:

three-, five-, or 10-mile radius rings to determine whether the population meets a minimum threshold size. Each ring includes the area within the stated number of miles from the subject site—without taking access, barriers, or density into consideration.



For a retail market study, simple trade area rings are useful for an initial review of a market's population size or expenditure potential, but they will not accurately portray a site's actual "draw."

2. Defining the Market Area -Factors to Consider



Seven key factors affect the size and shape of a market area:

Natural features:

In some cases, lakes, rivers, or mountains cannot be traversed easily. Roads might be narrow or winding, or bridges might be few and far between. In other cases, natural features act as psychological or social barriers.

Built barriers:

Highways, railroad tracks, large industrial areas, and airports can restrict access to a site from nearby neighborhoods, thereby limiting the size of the trade area.

Traffic congestion:

Chronic traffic congestion can limit the size of trade areas and discourage potential homebuyers, apartment renters, or office tenants from looking at an otherwise attractive location.

2. Defining the Market Area -Factors to Consider



Population density:

A shopping center proposed for a densely developed city neighborhood will have a much smaller market area than will one proposed for a small town in a rural county. In urban neighborhoods and in areas around train stations, the primary trade area might be defined on the basis of walking distance—usually no more than a half mile.

Political boundaries:

Between cities and suburbs or between school districts. Residential properties in communities with low crime rates and good schools will draw from a large trade area, all other things being equal. Political boundaries also determine real estate tax rates for all types of development. Tax rates can vary dramatically among municipalities in the same general area.

2. Defining the Market Area -Factors to Consider

Neighborhood boundaries and identity:

Household income, family composition, education levels, and the age of the population all play a role in defining market areas, for both residential and commercial properties.

Development size and mix of uses:

Sizable projects will draw from large areas; smaller projects from small ones. A mixed-use development can cover multiple trade areas (for example, housing, offices, entertainment, and retail space) and thus draw potential buyers or tenants from different parts of the metropolitan region.



2. Defining the Market Area -Factors to Consider

Primary and Secondary Markets or Trade Areas:

More sophisticated residential or retail market studies will define both:

- A primary market area, from which 60 to 80 percent of residential or retail patronage will be captured
- A secondary market area, which will generate the balance of demand



2. Defining the Market Area -Factors to Consider

Demand is less dependent on local demographics than on:

- Transportation access (easy interstate highway or air connections)
- Conditions in the general economy (growth in tourism, increasing affluence)
- Interest in natural and built features (ski slopes, beaches, golf courses, hiking trails)
- Price points of the proposed development.
- The nearest competition may be located outside the immediate area or even out of state.

3. Inspecting the Site



Field observations are critical to a high-quality market study.

- Analysts can rarely get an accurate understanding of a site and its environs without visiting the property.
- Maps can show the property's size and shape, and Google Earth can show aerial views of its surroundings, but visiting the site itself gives an analyst a sense of its topography, natural features, and views.
- Visiting the site also provides an opportunity to assess the compatibility of the proposed development with surrounding uses.
- An inspection will also reveal potential visibility issues or problems with access from nearby roads.

Assessing the Site's Advantages and Disadvantages



- location in a historic district (although architectural restrictions could impose constraints)
- Attractive views of the downtown skyline, or presence of mature trees that will remain after construction.
- Incompatible neighboring uses such as deteriorating nearby buildings
- proximity to environmental hazards or landfills; and noise from highways, rail lines, or airports are negative characteristics—especially for residential development.
- The analyst should note access or visibility problems that require corrective action. (The developer may have to pay for certain off-site infrastructure improvements.

Assessing the Site's Advantages and Disadvantages



- High traffic counts would not draw seniors to a retirement community but would attract shopping center developers and their tenants
- The analyst must consider factors such as community character and reputation. Low crime rates and the proximity to services that are necessary for daily living.
- If new housing is targeted to young families, information about the reputation of the local school district, the availability of nearby daycare, and the location of community park and recreation programs should be part of the report.
- The presence of shops, restaurants, and entertainment in the area creates an identity that can lend prestige to an office location.

Assessing the Site's Advantages and Disadvantages

- The analysis should discuss the property's zoning and permitted uses and should note whether any zoning changes or variances will be necessary before development begins
- Nearby amenities can be key when a developer is selling a location to prospective tenants and buyers.
- Office tenants may want to be close to hotels for visiting vendors, clients, or employees from other locations. Businesses whose staff must frequently travel out of town will require proximity to the airport.



Project Example – Mid-Rise Residential Development

Assessing the Site's Advantages and Disadvantages

Project Assumptions

- Residential apartment project (6–8 floors)
- Urban residential district
- Target market: middle-income families and young professionals

Project Example – Mid-Rise Residential Development

Site Advantages

Strategic Location:

Located within an established residential neighborhood with proven housing demand
Direct access to main arterial roads and public transportation routes

Proximity to Services:

Walking distance to schools, supermarkets, healthcare facilities, and local retail
Short commuting time to major employment centers

Physical Characteristics:

Flat topography reduces earthwork and foundation costs
Regular site shape allows efficient building layout and optimal unit planning

Infrastructure Availability:

Existing connections to water, electricity, sewage, and telecommunications
No requirement for major off-site infrastructure investment

Project Example – Mid-Rise Residential Development

Site Disadvantages

Traffic and Accessibility:

- Peak-hour traffic congestion on surrounding roads may affect resident convenience
- Limited entry and exit points require careful traffic management design

Parking Constraints:

- Site area limits the number of on-grade parking spaces
- Additional basement parking may increase construction costs

Surrounding Development Context:

- Adjacent older residential buildings may limit premium pricing potential
- Visual quality of the surrounding area requires architectural enhancement

Regulatory Considerations:

- Height and density controls may restrict total buildable area
- Setback requirements reduce net sellable floor area

Project Example – Mid-Rise Residential Development

Overall Assessment

The site is **well-suited for mid-density residential development** targeting the middle-income market.

Advantages related to location, infrastructure, and site conditions outweigh the identified constraints.

Identified disadvantages can be mitigated through **design optimization, traffic solutions, and quality architectural treatment**, supporting the project's overall feasibility.

ASSESSMENT



4.Demand Analysis



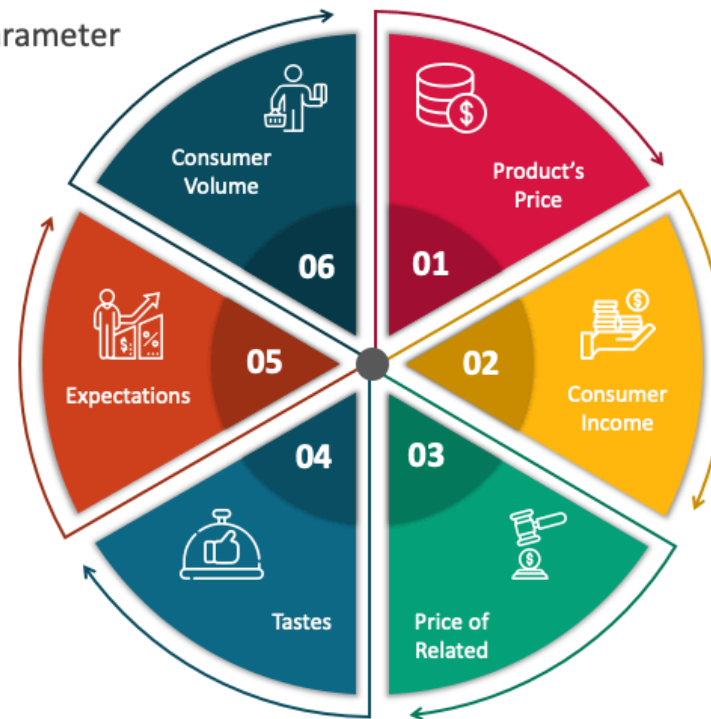
The Importance of Demand Analysis in Business



4.Demand Analysis

DEMAND ANALYSIS

Demand Analysis Parameter



4.Demand Analysis

Best Practices for Conducting Demand Analysis



4.Demand Analysis

Number of customers in the market

The potential market is an important parameter for demand analysis as the customers drive the demand.

Demographic trends and age characteristics are especially important when analyzing the market for senior housing or for apartments that cater to young adults.

Household composition (families with children, empty nesters, and singles) should also be noted.

Consumer volume



4.Demand Analysis

Detailed income data, when cross-tabulated with household age or other demographic indicators, can enable the analyst to identify the depth of targeted consumers—those whose housing or shopping preferences are likely to match the planned residential or retail space and those who have incomes sufficient to afford the rents or prices.

Consumer income

WHAT IS
HOUSEHOLD
INCOME?

An explanation of Household Income



[-Bureau of Labor Statistics](#)

BLS's Consumer
Expenditure Survey
-purchase data from
private vendors

Demand Analysis - example

Residential Apartment Development – Mid-Income Segment

Proposed project: 120 units

Product Price (Subject Property)

Average unit price: USD 130,000

Average price per m²: USD 1,200

Positioned within prevailing mid-market price range

- **Consumer Income**

Median household income: USD 24,000/year

Affordable housing expenditure: 30–35% of income

Income levels support mortgage and rental affordability

- **Price of Related Products (Substitutes)**

Competing apartment prices: USD 1,150–1,300 per m²

Rental substitutes (2 BR): USD 600–700/month

Subject project is competitively priced within market range

Demand Analysis - example

Residential Apartment Development – Mid-Income Segment

tastes and Preferences (Tests)

- Preferred unit types: 2–3 bedroom units (≈80% of demand)
- High preference for proximity to services and parking availability
- Proposed unit mix aligns with dominant buyer preferences

• Consumer Expectations

- Expected annual price growth: 3–5%
- Stable employment outlook supports positive purchase decisions
- Buyers anticipate medium-term capital appreciation

• Consumer Volume (Market Size)

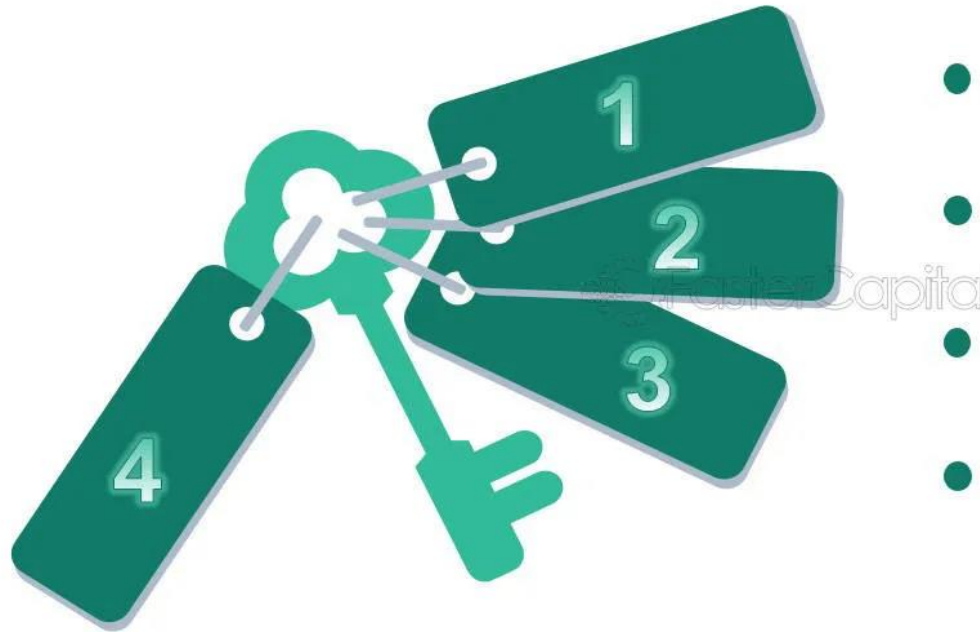
- New households: ~6,700 per year
- Apartment demand share: ~55% (~3,685 units/year)
- Target market segment demand (mid income): ~1,470 units/year
- Existing and pipeline competing supply: **~900 units/year**

Conclusion:

The interaction of price, income, substitutes, preferences, expectations, and market size indicates **sufficient effective demand** to absorb the proposed residential project at the planned scale and pricing.

5. Supply Analysis

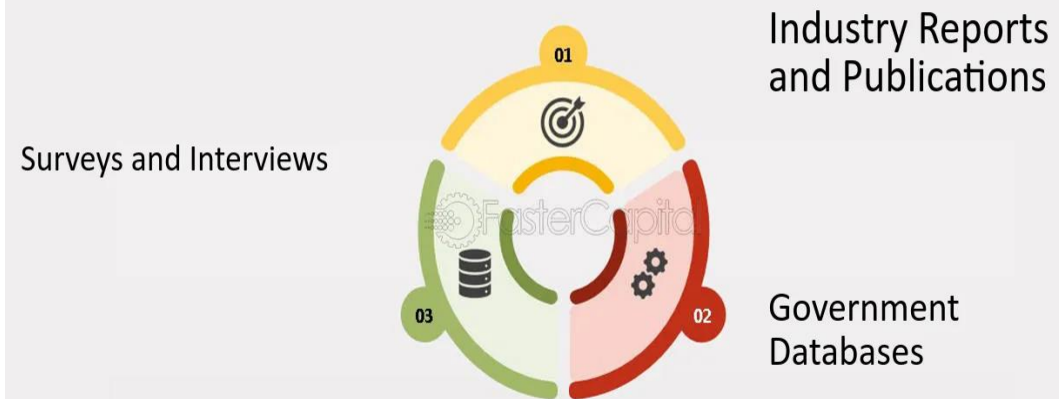
Utilizing Market Supply Analysis for Strategic Decision Making



- Identifying market gaps and opportunities
- Assessing market saturation
- Evaluating the feasibility of projects
- Strategic pricing decisions

5. Supply Analysis

Gathering Data for Market Supply Analysis

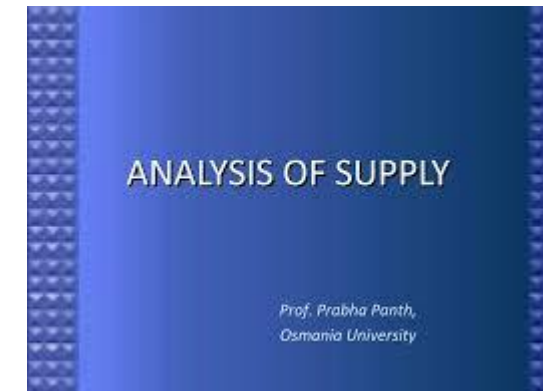


5. Supply Analysis

To understand the supply side of the equation, the analyst must look at existing and planned competition

Data sheets and summary tables typically include the following items:

- Property size—number of units for a residential project, square feet of space for a commercial building, number of hotel rooms.
- Year the property was built and when it was last renovated, if known
- For residential properties, the number of models offered (by number of bedrooms and baths) and the size of each unit type; for business parks, the range of building sizes; for office space, the floor plate sizes.



5. Supply Analysis

- Project or building amenities (for example, green building features, concierge services, and ground-floor coffee shops in an office building; pool, jogging trail, and dog run in an apartment complex).
- In-unit amenities (tech features, balconies, fireplaces, and any above-standard appliances, flooring, cabinetry, countertops, or trim).
- Monthly rent (total and per square foot) for each unit size in an apartment property; annual rent per square foot for commercial and industrial space.



5. Supply Analysis

- Lease concessions offered (for example, months of free rent, above-standard tenant improvement allowances in office buildings).
- Utilities and services included in the rent; extra charges (for example parking or exercise facility fees, common area maintenance)
- Anchor tenants, for a retail or office property.
- Occupancy rates, sublet space available, and comments on the size and location of vacant spaces in retail properties.
- Absorption rates for recently built projects.

market analysts look at capture rates—the share of projected demand growth that a project must attract to fill its rentable space (allowing for reasonable vacancy) or to sell its lots or homes.

5. Supply Analysis

in real estate, the **absorption rate** shows how quickly available homes or properties are sold/leased in a market over a specific time (usually monthly or yearly), indicating market health and demand; a **high rate (e.g., >20%)** signals a **strong seller's market**, while a **low rate (e.g., <15%)** suggests a **buyer's market with more inventory**, guiding pricing and development decision.

Example: If 20 homes sold out of 100 available in a month, the absorption rate is 20%

$$\text{Absorption Rate} = \frac{\text{Average number of sales per month}}{\text{Total number of available properties}}$$

5. Supply Analysis - Comparing the Subject with Its Competition

Many details about these projects will not be available, but it is useful to provide as much information as possible

- The size of the project,
- The market niche it is targeting,
- If it has received the necessary government approvals
- If any anchor tenants have been signed,
- When it is expected to open.

Much of this information can be collected by calling or visiting the local jurisdiction's planning office

The analyst must also investigate projects that are still in the pipeline and that may ultimately become the direct competitors for the proposed project.

6. Reconciling Demand and Supply

Comparing the Subject with Its Competition.

These features will vary by product type; not all of the ones listed here will be essential in every analysis:

- Location (access, convenience, visibility, prestige);
- Unit sizes and mix by number of bedrooms and baths, plus lot sizes for single-family homes;
- Observed condition of buildings and grounds;
- Occupancy costs (estimated monthly cost of utilities, property taxes, common area charges for shopping centers);
- Parking ratios and availability of garage spaces versus open lot spaces;
- Building or project amenities;
- Ability to support current and future technologies
- Security.

6. Reconciling Demand and Supply

Determining the Supply/Demand Balance :

Analysts should be on the lookout for the following warning signs :

- Construction activity levels that will dramatically exceed new demand, as indicated by household or employment projections.
- Escalating vacancy rates that cannot be readily explained by the movement of a single large tenant.
- Negative net absorption, with more space being vacated than new leases being signed.
- Declining real (inflation-adjusted) rents.
- Chronically vacant space and abandoned buildings, which indicate obsolescence, lack of demand, or both.

Supply Analysis Residential Apartment Market – Example

Existing apartment stock: ~48,000 units

Market vacancy rate: ~7% (balanced market)

Average annual new supply: 850 units

Pipeline supply (next 2 years): ~1,200 units

Direct competitors (mid-income): ~70% of new supply

Market absorption capacity: 750–900 units/year

Key Conclusion

The current and anticipated supply of residential apartments is **broadly aligned with demand**, and the competitive environment remains manageable for well-positioned projects in the mid-income segment.

Exercise: Supply and Demand Analysis for a Residential Real Estate Project

Case Background

A developer is considering a **mid-income residential apartment project** in an urban area.

Project Details

Proposed project size: **120 apartment units**

Target segment: **Mid-income households**

Expected delivery: **Within 2 years**

Exercise: Supply and Demand Analysis for a Residential Real Estate Project

Demand Analysis

Given Data

Total population: **1,200,000**

Annual population growth rate: **2.5%**

Average household size: **4 persons**

Apartment demand share of new households: **55%**

Mid-income segment share: **40%**

Questions

- Calculate the **annual population increase**.
- Estimate the **number of new households formed per year**.
- Calculate the **annual apartment demand**.
- Estimate the **target market segment demand** (mid-income apartments).

1. Annual Population Increase

$$1,200,000 \times 2.5\% = 30,000 \text{ persons/year}$$

2. New Households Formed per Year

$$30,000 \div 4 = 7,500 \text{ households/year}$$

3. Annual Apartment Demand

$$7,500 \times 55\% = 4,125 \text{ apartment units/year}$$

4. Target Market Segment Demand (Mid-Income)

$$4,125 \times 40\% = \boxed{1,650 \text{ units/year}}$$

Exercise: Supply and Demand Analysis for a Residential Real Estate Project

Supply Analysis

Given Data

Existing apartment stock: **50,000 units**

Current vacancy rate: **8%**

Average annual new supply (last 3 years): **900 units/year**

Approved & under-construction projects (next 2 years):

1,200 units total

Percentage competing with subject project: **70%**

Questions

- Calculate the **number of vacant units** in the market.
- Estimate the **annual competing supply**.
- Identify whether the market is **undersupplied, balanced, or oversupplied** (use vacancy benchmarks).

Supply Analysis

5. Number of Vacant Units

$$50,000 \times 8\% = \boxed{4,000 \text{ vacant units}}$$

6. Annual Competing Supply

Pipeline supply over 2 years:

$$1,200 \div 2 = 600 \text{ units/year}$$

Direct competitors (70%):

$$600 \times 70\% = \boxed{420 \text{ units/year}}$$

7. Market Supply Condition

Vacancy benchmark:

Balanced market: **5–10%**

Actual vacancy: **8%**

✓ **Conclusion:** Market is **balanced**, not oversupplied.

Exercise: Supply and Demand Analysis for a Residential Real Estate Project

Market Balance & Feasibility

Additional Data

Expected absorption capacity: **800 units/year**

Subject project size: **120 units**

Questions

- Calculate the **net effective demand** after accounting for competing supply.
- Calculate the **market capture rate** of the proposed project.
- Assess whether the **project scale is appropriate** and justify your answer.

Part C: Market Balance & Feasibility

8. Net Effective Demand

$$1,650 - 420 = \boxed{1,230 \text{ units/year}}$$

9. Market Capture Rate

$$120 \div 1,230 = 9.8\%$$

10. Project Scale Assessment

Interpretation Benchmarks

<10% → Low risk

10–20% → Moderate risk

20% → High risk

✦ **Result:**

Capture rate ≈ **9.8%**

Project scale is **appropriate and low risk**

Conclusion

Market study should cover key observations regarding the site and its surroundings, advantages and disadvantages of the location, demand indicators, and characteristics of the competition. It should conclude with the analyst's recommendations—that is, whether the development project should proceed as planned or, if not, how it could be modified to make it successful.



lecture

02

Exercise

Start supply demand analysis for proposed project?



Thank You