

Book Review

Editor

Thomas Musil

University of St. Thomas
College of Business
1000 LaSalle Avenue
Minneapolis, MN 55403

651-962-4263 (Phone)

651-962-4125 (Fax)

tamusil@stthomas.edu

This section contains reviews on textbooks, professional books and other scholarly books that are appropriate to real estate. Areas of interest include, but are not limited to, mortgage markets, real estate investments, real estate finance, asset and property management, real estate development, corporate real estate, valuation and other areas related to real estate. If you have an interest in reviewing a book, please contact the editor.

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Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use, Stephen F. Fanning, 543 pages, Appraisal Institute, 2005.

Reviewed by: Thomas Musil, University of St. Thomas.

Market analysis questions pervade real estate. From a pedagogical perspective, real estate market analysis topics begin with introductory real estate principles courses and advance in their refinement through more focused courses in investment analysis, valuation and development. The literature on real estate market analysis runs a gamut from introductory and often simplified rules of thumb and boilerplate processes to extensive and complex studies incorporating spatial database methodology.

Fanning's book entitled *Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use* and companion CD-ROM presents an opportunity for educators to use a text that enables a straightforward transition from a real estate finance or appraisal course setting to the more advanced and practical dimensions of real estate market analysis. The book provides both an orderly and comprehensive approach to market analysis topics that holds value for practitioners, undergraduate and graduate students. Supplemented by lectures and additional materials, the book provides a valuable resource for instructors teaching this topic.

In the preface of the book, Fanning notes the need for a text to introduce market and marketability analysis techniques in a way that presents the topic in an integrated process. By using real estate valuation as the practical professional application, the author achieves this objective. While many in real estate and allied fields are engaged in market analysis studies, the development of market analysis methodology within an appraisal context provides a clear, focused and practical way to approach the topic. Fanning's contention of the value of the appraisal approach is well supported by the role of market analysis in determining a property's highest and best use.

The book is divided into three parts. The first part, which comprises half the book, presents an overview of concepts including a six-step process for market analysis. The six-step process is comprised of: analysis of property productivity, market definition, demand analysis, supply analysis, comparison of supply and demand and development of a subject capture estimate. The second part of the book is based on case studies demonstrating the applications of the six-step market analysis process and how that process interfaces with estimates of value. Several of the tables that are used in the case studies are available as Excel files on the CD that accompanies the text. The last part of the book addresses, through case studies, the application of the six-step market analysis process in the determination of highest and best use.

A review of this book must focus on the six-step market analysis process defined by Fanning. Fanning's approach to market analysis is through the eyes of an appraiser. This is a valuable approach because it defines the practical dimension of real estate market analysis reports and provides an insightful approach that identifies client goals.

Step 1, a section on property productivity analysis, evaluates the relationship of property attributes with market activity. To accomplish these objectives, the author

explores the relationships among a property's physical features, improvements and linkages. The legal and governmental constraints on a property are discussed from the perspective of market delineation. Information is included on urban structural topics that influence land use and provides a brief review of urban growth models. An overview of economic base analysis is also provided. This section, while valuable to practitioners, represents an edited version of an undergraduate urban economic course.

Step 2, a section on market delineation, addresses the importance of defining, segmenting and delineating real estate markets. The author presents a concise review of these topics in a practical context. The work of Reilly, Applebaum and Nelson are cited as market determinants for retail property. Factors of building class, tenancy and location are discussed as market determinants for office properties.

Step 3, a section on demand analysis, addresses area analysis and demand forecasting for segmented markets. It emphasizes the need for appraisers to be applied economists in gaining a full understanding of the dynamics of supply and demand relationships. The author presents a spreadsheet analysis that rates competitive properties and reviews the use of common primary and secondary data in estimating retail, office and housing demand.

Step 4 addresses supply analysis. An overview of common governmental and private sources of secondary data is presented. Additionally, techniques for obtaining primary data are identified. This is a valuable approach often underutilized by both market analysts and appraisers seeking to obtain a more insightful and refined view of real estate markets. This section ends with a brief discussion on the use of modeling to refine data.

Step 5, a section that analyses the interaction of supply and demand, provides the reader with explanations for the short- and long-term cyclical nature of real estate markets. The causes of market cycles are discussed and evaluated. An important component of this section is a review of market stages and how excess supply or demand is ultimately satisfied.

Step 6 addresses the issues surrounding market penetration concepts. A brief breakdown of comparative market variables is provided along with the use of secondary data sources with which to evaluate a subject property in relation to comparable market data. Additionally, a review of total and new demand capture methods is presented.

Part two of the book contains four case studies that utilize the six-step approach. A community shopping center, an office building, an industrial building and an apartment complex are used as cases. All four provide a step-by-step process of performing a fundamental market analysis. Additionally, Fanning's approach to each incorporates fundamental property and market information, trends information and general concepts. The case studies are very valuable because they allow students to see how each are distinct and how a market analysis for each must be individually tailored

to the type and consumer. Additionally, the case studies enable course instructors numerous opportunities to expand on any of the concepts and data addressed.

Part three of the text addresses highest and best use applications. The author states that this part of the book links the mathematical models used to test financial feasibility in highest and best use with the data used in market analysis. Indeed, as Fanning notes, market analysis is the heart of appraisal and that it is a process and not a mechanical procedure. The discussion integrates the six-step market analysis process into the review and determination of a property's highest and best use. The six-step process enables questions on financial feasibility, property productivity, property use, market cycles and market participants to be addressed. The process of financial analysis and optimal property use is a seventh concluding step developed in Fanning's process. The case studies used to demonstrate the application of these steps include a retail site, a large mixed-use development, a proposed shopping center and a vacant shopping center. Each case study is well structured, rich with data and possesses valuable applications for market analysis. The text concludes with some brief statements on the application of market analysis concepts to approaches to value and a summary of the National Council on Real Estate Investment Fiduciaries practical guidelines for market analysis in appraisal reports.

In summary, this text is very valuable for use in both undergraduate and graduate instruction. Both the concepts and the preparation of a market analysis reports are exceptionally well articulated and demonstrated.
