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Market analysis is a critical part of the appraisal development process - by Bill Pastuszek

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Together with highest and best use, market analysis is a critical part of the appraisal development process. The Dictionary of Real Estate Appraisal defines market analysis as: “The study of the supply and demand in a specific area for a specific type of property.”

Uniform Standards tells us, that, “when necessary for credible assignment results in developing a market value opinion, an appraiser must ... identify and analyze the effect on use and value of” existing land use regulations; reasonably probable modifications of such land use regulations; economic supply and demand; the physical adaptability of the real estate; and market area trends.

Market analysis, according to The Appraisal of Real Estate, is a “systematic” six step process which consists of:

- Productivity analysis, which is where the attributes of a property are examined to determine marketability in terms of specific services it provides and the specific needs in the market it satisfies.
- Market area delineation, which is the process of identifying the geographic area where a majority of competition is located and from which a majority of demand is drawn.
- Demand analysis, which studies current or ongoing market appetite for a specific real estate asset.
- Supply analysis: the study of current or future competitive supply of space in a particular market.
- Residual demand analysis which analyzes market demand to determine if the market is oversupplied, in balance, or undersupplied.
- Subject capture represents the amount (typically a percentage) of total demand that a property can be expected to attract currently and into the future. (Short-term capture is referred to as absorption. Long-term capture is referred to as market share.)

This six-step process sets out a clear roadmap for market analysis and supports the industry’s other applicable definitions. Depending on the property type, market, and type of assignment, there are many approaches to market analysis that are possible with this process. The key point: The depth of the analysis must be consistent with the intended use of the assignment.

Highly specialized properties typically require a very focused, specific market analysis. This is done to establish market acceptance. Many specialized industrial properties require in-depth understanding of underlying demand for the property.

Property types such as ski resorts, marinas, casinos, and certain equestrian facilities probably require market analysis that links national or regional trends to local conditions.

Certain property types – for example, hospitality properties - have a well-defined, market accepted approach to market analysis. Paying attention to the pathways developed over time by lodging property analysts provides a market study that identifies with relative precision, the market position of a property. For example, lodging market analysis identifies precisely peer properties and their performance vis a vis the subject.

Development properties, in particular, require supportable assumptions with respect to pricing, market acceptance of the product, and absorption. Residential valuation requires focused market analysis to understand homebuying trends and valued features within specific markets.

Market analysis can devolve into a rote exercise as data copied from published surveys gets forced into a template, or is presented in such volume and about such wide-ranging property types as to lose its specific relevance to the subject property. The results of such a market study may be generic generalizations rather than specific analysis, so that no meaningful conclusions can be drawn about the subject property or its specific market environment. Consider the different types of market data and analysis that would be needed to understand a small owner-occupied industrial building market vs. an investor-driven, mid-size multi-tenant industrial building market. Consider also the differing market analysis requirements needed in considering national triple net leased day care centers and locally operated centers.

There is a wealth of survey information covering a wide variety of property types. Many of these surveys provide a high-level overview. Bridging the gap—with specific data and analysis—between a market or property at ground level, and the regional or national information is a crucial aspect in creating effective and meaningful market analyses.

There are many well-written appraisals that take these preceding approaches seriously and develop and report a well-considered, relevant market analysis. Then there are those that provide an abundance of data but don't demonstrate its relevance and don't draw conclusions from it. There are also appraisals that don't provide sufficient or relevant data and analysis.

The goal of market analysis is to provide support for the valuation of a property within its market environment. In order to provide an effective market analysis, appraisers need to demonstrate the relevance of their data, and provide pertinent analyses and conclusions.

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